



**GEORGE LOCAL MUNICIPALITY**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

AUDITOR-GENERAL

2013 -11- 29

SOUTH AFRICA

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**GENERAL INFORMATION**

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**Mayoral committee**

Executive Mayor

C Standers

Deputy Executive Mayor

D Maritz

Speaker

M Draghoender

**Councillors**

**Ward**

1	BA Fortuin (Resigned 31 May 2013)
2	C Neethling
3	EP De Villiers
4	LD van Wyk
5	LBC Esau
6	JJ Muller (Deceased 27 March 2013)
6	HH Ingo (Appointed 22 May 2013)
7	FZ Ntozini
8	C Standers
9	T Teyisi
10	MD Gingcana
11	NF Kamte
12	GN Sixolo
13	B Salmani
14	CM Papah (Resigned 26 April 2013)
15	FS Guga
16	HJ Jones
17	D Maritz
18	GC Niehaus
19	IC Kritzinger
20	M Draghoender
21	JS Thanda
22	PH de Swardt
23	GJ Stander
24	AM Wildeman
25	MEF Kleynhans



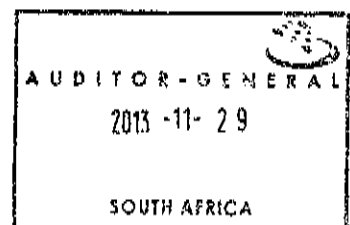
**George Local Municipality**  
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**GENERAL INFORMATION**

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Proportionally elected councillors

SJ Bezuidenhout  
C Bob  
TJ Botha (Deceased 27 March 2013)  
BM Cornelius  
NNE Dlephu  
J du Toit  
T Fortuin  
V Gericke  
F Harris (Resigned 26 June 2013)  
WT Harris  
LS Hayward  
NV Kom  
PB Komani  
PS Leholo  
G Macclune  
SM Mekana  
B Petrus  
LN Qupe  
GMY Sihoyiya  
I Stemela  
PJ van der Hoven  
AJ van Zyl  
M Viljoen (Appointed 5 April 2013)  
CT Williams  
W Witbooi



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**GENERAL INFORMATION**

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<b>Auditor</b>	Auditor General
<b>Bankers</b>	ABSA Bank Limited
<b>Registered office</b>	Civic Centre York Street 77 GEORGE 6530
<b>Postal address</b>	PO Box 19 GEORGE 6530
<b>Contact numbers</b>	Tel: 044 801 9111 Fax: 044 873 3776
<b>Website</b>	<a href="http://www.george.org.za">www.george.org.za</a>
<b>E-mail</b>	<a href="mailto:post@george.org.za">post@george.org.za</a>
<b>Accounting Officer</b>	T Botha
<b>Chief Finance Officer (CFO)</b>	MM Cupido Acting 1 January 2012 to 31 August 2012 K Jordaan Acting 1 September 2012 to 30 October 2012 Appointed 1 November 2012



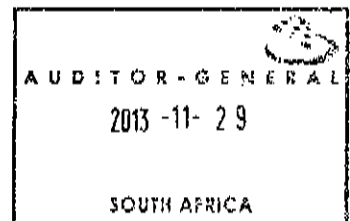
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**Abbreviations**

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council (Provincial)
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**MUNICIPAL MANAGER'S APPROVAL OF THE FINANCIAL STATEMENTS**

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The financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these Financial Statements, which are set out on pages 6 to 113 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

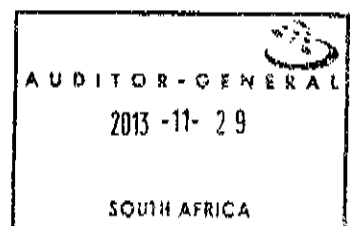
I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. Refer to note 25 for the disclosure of Councillor remuneration.



**T BOTHA**  
**MUNICIPAL MANAGER**

**George**

**30 August 2013**



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

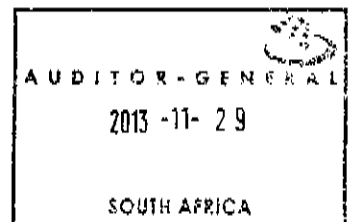
**Statement of Financial Position as at 30 June 2013**

<b>Figures in Rand</b>	<b>Note</b>	<b>2013</b>	<b>2012 RESTATED</b>
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	183,694,651	185,076,825
Trade receivables from exchange transactions	3	49,539,691	70,412,251
Trade receivables from non-exchange transactions	3	23,639,828	16,886,123
Other receivables	4	40,873,838	34,140,674
VAT receivable	5	9,093,233	4,964,237
Loans and receivables	6	304,449	332,646
Cash and cash equivalents	7	266,877,126	218,901,017
		<b>574,022,816</b>	<b>530,713,773</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8, 50	2,335,025,594	2,323,755,474
Intangible assets	9	1,289,004	1,802,071
Heritage assets	10	4,236,000	4,236,000
Investment property	11	152,740,935	149,918,175
Loans and receivables	6	1,163,637	1,097,659
		<b>2,494,455,170</b>	<b>2,480,809,379</b>
<b>Total Assets</b>		<b>3,068,477,986</b>	<b>3,011,523,152</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Loans and borrowings	12	36,963,110	33,843,432
Trade and other payables from exchange transactions	13	107,230,084	92,363,471
Consumer deposits	14	17,697,494	15,933,169
Employee benefits	15	28,473,283	24,582,073
Provisions	16	3,341,806	1,769,151
Unspent conditional grants and receipts	17	71,492,455	41,994,057
		<b>265,198,232</b>	<b>210,485,353</b>
<b>Non-Current Liabilities</b>			
Loans and borrowings	12	450,070,455	487,033,565
Employee benefits	15	119,002,930	109,146,328
Provisions	16	11,861,745	13,622,181
		<b>580,935,130</b>	<b>609,802,074</b>
<b>Total Liabilities</b>		<b>846,133,362</b>	<b>820,287,427</b>
<b>Net Assets</b>		<b>2,222,344,624</b>	<b>2,191,235,725</b>
<b>Net Assets</b>			
Housing development fund	18	77,330,118	74,011,194
Accumulated surplus		2,145,014,506	2,117,224,531
<b>Total Net Assets</b>		<b>2,222,344,624</b>	<b>2,191,235,725</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Statement of Financial Performance**

Figures in Rand	Note	2013	2012 RESTATED
<b>Revenue</b>			
<b>Revenue from non-exchange transactions</b>		395,375,898	347,592,056
Property rates	19	143,438,448	127,788,416
Property rates - penalties imposed and collection charges		3,845,224	1,217,609
Government grants and subsidies	20	232,515,870	203,529,414
Fines		15,576,356	15,056,617
<b>Revenue from exchange transactions</b>		640,724,157	585,387,702
Service charges	21	587,205,040	527,786,442
Rental revenue		1,990,718	2,102,676
Income from agency services		6,290,635	5,751,031
Licences and permits		2,507,791	2,450,997
Gain on disposal of assets		18,477	-
Other income	22	25,286,896	29,008,428
Interest received	23	17,424,600	18,288,128
<b>Total Revenue</b>		<b>1,036,100,055</b>	<b>932,979,758</b>
<b>Expenditure</b>			
Personnel costs	24	269,126,109	248,882,795
Remuneration of councillors	25	14,567,528	13,868,487
Loss on disposal of assets		-	11,285,936
Depreciation and amortisation	26	106,153,538	105,359,522
Impairment losses	27	37,041,738	19,557,889
Finance costs	28	55,450,529	57,217,007
Collection costs		4,648,374	4,728,414
Repairs and maintenance		63,724,904	52,813,917
Bulk purchases	29	276,691,264	244,403,075
Contracted services	30	93,695,665	100,248,256
Grants and subsidies paid	31	1,520,077	1,188,374
Cost of erven sold		2,290,750	487,940
General Expenses	32	80,080,680	77,957,386
<b>Total Expenditure</b>		<b>1,004,991,156</b>	<b>937,998,998</b>
<b>Surplus (deficit) for the year</b>		<b>31,108,899</b>	<b>(5,019,240)</b>

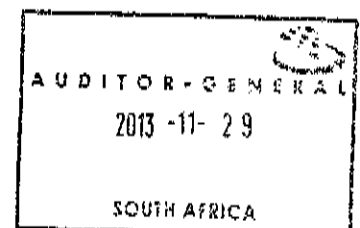




**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Statement of Changes in Net Assets**

<b>Figures in Rand</b>	<b>Housing Development Fund</b>	<b>Accumulated surplus</b>	<b>Total net assets</b>
Opening balance as previously reported	70,710,661	1,650,898,400	1,721,609,061
Adjustments			
Prior year adjustment - refer to note 39.1	-	(93,100)	(93,100)
Prior year adjustment - refer to note 39.4	-	4,240,265	4,240,265
Prior year adjustment - refer to note 39.3	-	(735,650)	(735,650)
Prior year adjustment - refer to note 39.5	-	372,051,295	372,051,295
<b>Balance at 01 July 2011 as restated</b>	<b>70,710,661</b>	<b>2,026,361,210</b>	<b>2,097,071,871</b>
Changes in net assets			
Transfer to / (from) Housing Development Fund	3,300,533	(3,300,533)	-
Transfer of function between entities under common control - refer to note 39.2	-	99,183,094	99,183,094
Net income (losses) recognised directly in net assets	3,300,533	95,882,561	99,183,094
Surplus / (Deficit) for the year	-	(5,019,240)	(5,019,240)
Total recognised income and expenses for the year	3,300,533	90,863,321	94,163,854
Total changes	3,300,533	90,863,321	94,163,854
<b>Balance at 01 July 2012</b>	<b>74,011,194</b>	<b>2,117,224,531</b>	<b>2,191,235,725</b>
Changes in net assets			
Transfer to / (from) Housing Development Fund	3,318,924	(3,318,924)	-
Net income (losses) recognised directly in net assets	3,318,924	(3,318,924)	-
Surplus for the year	-	31,108,899	31,108,899
Total recognised income and expenses for the year	3,318,924	27,789,975	31,108,899
Total changes	3,318,924	27,789,975	31,108,899
<b>Balance at 30 June 2013</b>	<b>77,330,118</b>	<b>2,145,014,506</b>	<b>2,222,344,624</b>
Note(s)			



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Cash Flow Statement**

Figures in Rand	Notes	2013	2012
<b>Cash flows from operating activities</b>			
Cash receipts from ratepayers, government and others		1,018,403,480	894,703,638
Cash paid to suppliers and employees		(777,046,185)	(726,126,232)
Cash generated from operations	33	241,357,295	168,577,406
Finance income		14,103,860	15,176,235
Finance costs		(55,450,529)	(57,217,007)
<b>Net cash from operating activities</b>		<b>200,010,626</b>	<b>126,536,634</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(119,211,457)	(109,726,106)
Proceeds on disposal of property, plant and equipment	8	330,442	149,189
Purchase of intangible assets	9	(84,474)	(271,816)
Decrease in loans and receivables		774,404	242,564
<b>Net cash flows from investing activities</b>		<b>(118,191,085)</b>	<b>(109,606,169)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and borrowings		(33,843,432)	(30,526,038)
<b>Net cash flows from financing activities</b>		<b>(33,843,432)</b>	<b>(30,526,038)</b>
<b>Total cash movement for the year</b>		<b>47,976,109</b>	<b>(13,595,573)</b>
Cash and cash equivalents at the beginning of the year		218,901,017	232,496,590
<b>Cash and cash equivalents at the end of the year</b>	7	<b>266,877,126</b>	<b>218,901,017</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

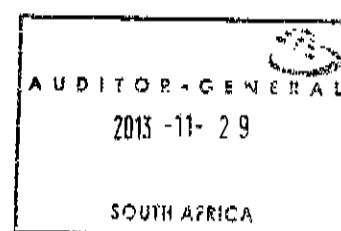
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue by source</b>						
Property rates	145,368,394	3,859,474	<b>149,227,868</b>	147,200,675	<b>(2,027,193)</b>	
Service charges	580,126,660	7,492,717	<b>587,619,377</b>	587,205,040	<b>(414,337)</b>	
Investment revenue	12,455,000	631,500	<b>13,086,500</b>	13,780,605	<b>694,105</b>	
Transfers recognised - operational	156,842,554	12,183,010	<b>169,025,564</b>	149,610,785	<b>(19,414,779)</b>	48.1
Other own revenue	55,143,182	(8,525,942)	<b>46,617,240</b>	46,382,232	<b>(235,008)</b>	
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>949,935,790</b>	<b>15,640,759</b>	<b>965,576,549</b>	<b>944,179,337</b>	<b>(21,397,212)</b>	
<b>Expenditure by type</b>						
Employee costs	260,585,751	343,002	<b>260,928,753</b>	256,478,920	<b>(4,449,833)</b>	48.2
Remuneration of councillors	15,471,610	-	<b>15,471,610</b>	14,567,527	<b>(904,083)</b>	
Debt impairment	21,293,940	-	<b>21,293,940</b>	37,041,738	<b>15,747,798</b>	48.3
Depreciation & asset impairment	101,988,786	5,945,075	<b>107,933,861</b>	106,153,539	<b>(1,780,322)</b>	48.4
Finance charges	54,028,391	391,622	<b>54,420,013</b>	53,818,579	<b>(601,434)</b>	48.5
Materials and bulk purchases	280,056,841	2,045,000	<b>282,101,841</b>	276,585,398	<b>(5,516,443)</b>	
Transfers and grants	2,010,675	(586,675)	<b>1,424,000</b>	1,520,077	<b>96,077</b>	
Other expenditure	247,854,211	27,828,082	<b>275,682,293</b>	243,696,689	<b>(31,985,604)</b>	48.6
<b>Total expenditure</b>	<b>983,290,205</b>	<b>35,966,106</b>	<b>1,019,256,311</b>	<b>989,862,467</b>	<b>(29,393,844)</b>	
<b>Surplus / (Deficit)</b>	<b>(33,354,415)</b>	<b>(20,325,347)</b>	<b>(53,679,762)</b>	<b>(45,683,130)</b>	<b>7,996,632</b>	
Transfers recognised - capital	86,437,650	23,196,073	<b>109,633,723</b>	83,654,469	<b>(25,979,254)</b>	48.7
Contributions recognised - capital & contributed assets	6,245,520	2,500,000	<b>8,745,520</b>	8,548,065	<b>(197,455)</b>	
<b>Surplus / (Deficit) after capital transfers &amp; contributions</b>	<b>59,328,755</b>	<b>5,370,726</b>	<b>64,699,481</b>	<b>46,519,404</b>	<b>(18,180,077)</b>	
<b>Deficit for the year</b>	<b>59,328,755</b>	<b>5,370,726</b>	<b>64,699,481</b>	<b>46,519,404</b>	<b>(18,180,077)</b>	



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Reconciliation</b>						
<b>Basis difference</b>						
Employee benefit obligations on Long Service Awards, Ex-gratia Pension Benefits and Post-Retirement Medical Aid Benefits (refer to note 24)				(16,648,120)		
Provision for Cape Joint Pension fund (refer to note 16)				3,688,595		
Leave provision not budget for (refer to note 15)				(1,651,666)		
Interest on provision for rehabilitation of landfill site (refer to notes 16 and 28)				(799,314)		
<b>Actual Amount in the Statement of Financial Performance</b>				<b>31,108,899</b>		

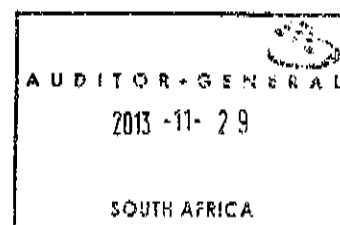


**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Capital expenditure</b>						
<b>Capital expenditure by vote</b>						
Executive and Council	30,000	217,000	<b>247,000</b>	238,435	<b>(8,565)</b>	
Budget and Treasury	230,000	(75,000)	<b>155,000</b>	138,512	<b>(16,488)</b>	
Corporate Services	660,000	498,800	<b>1,158,800</b>	334,953	<b>(823,847)</b>	
Community and social services	1,319,190	(772,800)	<b>546,390</b>	478,983	<b>(67,407)</b>	
Sport and Recreation	2,808,000	4,577,575	<b>7,385,575</b>	4,400,025	<b>(2,985,550)</b>	
Public Safety	6,009,000	(94,000)	<b>5,915,000</b>	2,607,507	<b>(3,307,493)</b>	
Housing	4,085,000	(3,092,000)	<b>993,000</b>	896,791	<b>(96,209)</b>	
Health	-	60,000	<b>60,000</b>	50,155	<b>(9,845)</b>	
Road Transport	33,228,693	(1,476,541)	<b>31,752,152</b>	24,079,946	<b>(7,672,206)</b>	
Electricity	25,174,500	(1,388,920)	<b>23,785,580</b>	17,864,654	<b>(5,920,926)</b>	
Water	32,866,350	3,541,518	<b>36,407,868</b>	30,685,684	<b>(5,722,184)</b>	
Waste Water Management	36,011,300	7,100,725	<b>43,112,025</b>	37,089,187	<b>(6,022,838)</b>	
Waste Management	8,500,000	(6,645,000)	<b>1,855,000</b>	346,626	<b>(1,508,374)</b>	
	<b>150,922,033</b>	<b>2,451,357</b>	<b>153,373,390</b>	<b>119,211,458</b>	<b>(34,161,932)</b>	48.7
<b>Sources of Capital Funds</b>						
National Government	56,991,943	(12,980,631)	<b>44,011,312</b>	39,952,987	<b>(4,058,325)</b>	
Provincial Government	34,454,390	23,108,885	<b>57,563,275</b>	42,289,322	<b>(15,273,953)</b>	
Other transfers and grants	-	4,000,000	<b>4,000,000</b>	662,777	<b>(3,337,223)</b>	
Borrowings	11,350,000	(6,000,000)	<b>5,350,000</b>	-	<b>(5,350,000)</b>	
Internally generated funds	48,125,700	(5,676,897)	<b>42,448,803</b>	36,306,371	<b>(6,142,432)</b>	
<b>Total sources of capital funds</b>	<b>150,922,033</b>	<b>2,451,357</b>	<b>153,373,390</b>	<b>119,211,457</b>	<b>(34,161,933)</b>	



# **George Local Municipality** Financial Statements for the year ended 30 June 2013

## **Appropriation Statement**

Figures in Rand

	Original budget	Budget adjustments (i.e. s28 and s31 of the MFMA)	Final adjustments (i.e. council approved policy)	Shifting of funds (i.e. MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2013</b>										
<b>Financial Performance</b>										
Property rates	145,368,394	3,859,474	149,227,868	-	149,227,868	147,200,675		(2,027,193)	99 %	101 %
Service charges	580,126,660	7,492,717	587,619,377	-	587,619,377	587,205,040		(414,337)	100 %	101 %
Investment revenue	12,455,000	631,500	13,086,500	-	13,086,500	13,780,604		694,104	105 %	111 %
Transfers recognised - operational	156,842,554	12,183,010	169,025,564	-	169,025,564	149,610,785		(19,414,779)	89 %	95 %
Other own revenue	55,143,182	(8,525,942)	46,617,240	-	46,617,240	46,382,232		(235,008)	99 %	84 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>949,935,790</b>	<b>15,640,759</b>	<b>965,576,549</b>	<b>-</b>	<b>965,576,549</b>	<b>944,179,336</b>		<b>(21,397,213)</b>	<b>98 %</b>	<b>99 %</b>
Employee costs	260,585,751	343,002	260,928,753	-	263,544,873	271,090,111	7,545,238	7,545,238	(103)%	(104)%
Remuneration of councillors	15,471,610	-	15,471,610	-	15,471,610	14,567,527	-	(904,083)	(94)%	(94)%
Debt impairment	21,293,940	-	21,293,940	-	21,293,940	37,041,738	12,721,790	15,747,798	(174)%	(174)%
Depreciation and asset impairment	101,988,786	5,945,075	107,933,861	-	107,933,861	106,153,539	-	(1,780,322)	(98)%	(104)%
Finance charges	54,028,391	391,622	54,420,013	-	54,416,013	54,617,893	201,880	201,880	(100)%	(101)%
Materials and bulk purchases	280,056,841	2,045,000	282,101,841	-	282,034,341	276,585,398	-	(5,448,943)	(98)%	(99)%
Transfers and grants	2,010,675	(586,675)	1,424,000	-	1,639,000	1,520,077	-	(118,923)	(93)%	(76)%
Other expenditure	247,854,211	27,828,082	275,682,293	-	272,922,673	243,696,688	-	(29,225,985)	(89)%	(98)%
<b>Total expenditure</b>	<b>983,290,205</b>	<b>35,966,106</b>	<b>1,019,256,311</b>	<b>-</b>	<b>1,019,256,311</b>	<b>1,005,272,971</b>	<b>20,468,908</b>	<b>(13,983,340)</b>	<b>(99)%</b>	<b>(102)%</b>
<b>Surplus/(Deficit)</b>	<b>(33,354,415)</b>	<b>(20,325,347)</b>	<b>(53,679,762)</b>	<b>-</b>	<b>(53,679,762)</b>	<b>(61,093,635)</b>		<b>(7,413,873)</b>	<b>(114)%</b>	<b>(189)%</b>

AUDITOR - GENERAL

# **George Local Municipality** Financial Statements for the year ended 30 June 2013

## **Appropriation Statement**

Figures in Rand

	Original budget	Budget adjustments (l.i.o. s31 of the MFMA)	Final adjustments and budget (l.i.o. s31 of the MFMA)	Shifting of funds (l.i.o. s31 of the MFMA)	Virement (l.i.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	86,437,650	23,196,073	109,633,723	-	-	109,633,723	83,654,469		(25,979,254)	76 %	97 %
Contributions recognised - capital and contributed assets	6,245,520	2,500,000	8,745,520	-	-	8,745,520	8,548,065		(197,455)	98 %	137 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>59,328,755</b>	<b>5,370,726</b>	<b>64,699,481</b>	<b>-</b>	<b>-</b>	<b>64,699,481</b>	<b>31,108,899</b>		<b>(33,590,582)</b>	<b>48 %</b>	<b>52 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>59,328,755</b>	<b>5,370,726</b>	<b>64,699,481</b>	<b>-</b>	<b>-</b>	<b>64,699,481</b>	<b>31,108,899</b>		<b>(33,590,582)</b>	<b>48 %</b>	<b>52 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	150,922,033	2,451,357	153,373,390	-	-	153,373,390	119,211,456		(34,161,934)	78 %	79 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	91,446,333	14,128,254	105,574,587	-	-	105,574,587	82,905,085		(22,669,502)	79 %	91 %
Borrowing	11,350,000	(6,000,000)	5,350,000	-	-	5,350,000	-		(5,350,000)	- %	- %
Internally generated funds	48,125,700	(5,676,897)	42,448,803	-	-	42,448,803	36,306,371		(6,142,432)	86 %	75 %
<b>Total sources of capital funds</b>	<b>150,922,033</b>	<b>2,451,357</b>	<b>153,373,390</b>	<b>-</b>	<b>-</b>	<b>153,373,390</b>	<b>119,211,456</b>		<b>(34,161,934)</b>	<b>78 %</b>	<b>79 %</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Appropriation Statement**

Figures in Rand

	Original budget	Budget adjustments (l.t.o. s28 and budget s31 of the MFMA)	Final adjustments (l.t.o. council approved policy)	Shifting of funds (l.t.o. MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>										
Net cash from (used) operating	175,072,606	(63,567,250)	111,505,356	-	111,505,356	200,010,626		88,505,270	179 %	114 %
Net cash from (used) investing	(138,063,033)	(11,310,357)	(149,373,390)	-	(149,373,390)	(118,191,085)		31,182,305	79 %	86 %
Net cash from (used) financing	(19,925,029)	(5,300,000)	(25,225,029)	-	(25,225,029)	(33,843,432)		(8,618,403)	134 %	170 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>17,084,544</b>	<b>(80,177,607)</b>	<b>(63,093,063)</b>	<b>-</b>	<b>(63,093,063)</b>	<b>47,976,109</b>		<b>111,069,172</b>	<b>(76)%</b>	<b>281 %</b>
Cash and cash equivalents at the beginning of the year	265,316,316	(46,415,299)	218,901,017	-	218,901,017	218,901,017		-	100 %	83 %
<b>Cash and cash equivalents at year end</b>	<b>282,400,860</b>	<b>(126,592,906)</b>	<b>155,807,954</b>	<b>-</b>	<b>155,807,954</b>	<b>266,877,126</b>		<b>(111,069,172)</b>	<b>171 %</b>	<b>95 %</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be Restated recovered audited outcome
<b>2012</b>			
<b>Financial Performance</b>			
Property rates			129,006,025
Service charges			527,786,442
Investment revenue			18,288,128
Transfers recognised - operational			203,529,414
Other own revenue			54,369,749
<b>Total revenue (excluding capital transfers and contributions)</b>			<b>932,979,758</b>
Employee costs	13,077,435	13,077,435	- (248,882,795)
Remuneration of councillors	-	-	- (13,868,487)
Impairment losses	8,081,889	8,081,889	- (19,557,899)
Depreciation and asset impairment	2,976,111	2,976,111	- (105,359,522)
Finance charges	-	-	- (57,217,007)
Materials and bulk purchases	-	-	- (244,403,075)
Transfers and grants	-	-	- (1,188,374)
Other expenditure	3,787,952	3,787,952	- (247,521,849)
<b>Total expenditure</b>	<b>27,923,387</b>	<b>27,923,387</b>	<b>- (937,999,008)</b>
<b>Surplus/(Deficit)</b>			<b>(5,019,250)</b>
<b>Surplus/(Deficit) for the year</b>			<b>(5,019,250)</b>
<b>Capital expenditure and funds sources</b>			
Total capital expenditure			109,997,922
<b>Cash flows</b>			
Net cash from (used) operating			126,536,634
Net cash from (used) investing			(109,606,169)
Net cash from (used) financing			(30,526,038)
<b>Net increase/(decrease) in cash and cash equivalents</b>			<b>(13,595,573)</b>
Cash and cash equivalents at the beginning of the year			232,496,590
<b>Cash and cash equivalents at year end</b>			<b>218,901,017</b>

Unauthorised expenditure was approved on a council meeting on 30 January 2013.



## **ACCOUNTING POLICIES**

George Municipality is a local government institution in George, Western Cape. The addresses of its registered office and principal place of business are disclosed under General Information. Refer to page 3.

The accounting policies for the Municipality are:

### **1. Accounting policies**

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These accounting policies are consistent with the previous period.

#### **1.1 Presentation of Financial Statements**

The financial statements have been prepared on the historical cost basis except as noted in the accounting policies below.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP do not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not yet effective:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b> (Year commencing on)
GRAP 1 (Revised)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised)	Inventories	1 April 2013
GRAP 13 (Revised)	Leases	1 April 2013
GRAP 16 (Revised)	Investment Property	1 April 2013
GRAP 17 (Revised)	Property, plant and equipment	1 April 2013
GRAP 25	Employee Benefits	1 April 2013

The Municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP105	Transfer of Functions between Entities under common control	Unknown

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

## **ACCOUNTING POLICIES**

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### **1.1 Presentation of Annual Financial Statements (continued)**

Assets, liabilities, revenue and expenditure have not been offset except when offsetting is permitted or required by a Standard of GRAP.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible Assets where the acquisition cost of an asset could not be determined.

The cost for depreciated replacement cost is determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

#### **Significant judgements, estimates and assumptions**

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of GRAP that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

Significant judgements include:

#### **Property, plant and equipment**

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

## **ACCOUNTING POLICIES**

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### **1.1 Presentation of Annual Financial Statements (continued)**

#### **Intangible assets**

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

#### **Investment property**

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### **Revenue recognition**

Accounting Policy 1.18 on Revenue from Non-Exchange Transactions and on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **Provisions**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material.

#### **Post retirement medical obligations, long service awards and ex gratia gratuities**

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### **Impairment of receivables**

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

### **1.2 Going concern assumptions**

These annual financial statements have been prepared on a going concern basis.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**ACCOUNTING POLICIES**

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**1.3 Presentation of currency**

Amounts reflected in the financial statements are in South African Rand. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

**1.4 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

**1.5 Materiality**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

**1.6 Standards, amendments to standards and interpretations issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 18	Segment Reporting Presentation of the financial statements will be affected by this standard.	Unknown
GRAP20	Related party disclosure Presentation of the financial statements will be affected by this standard.	Unknown
GRAP 105	Transfer of Functions Between Entities Under Common Control No significant impact is expected as the Municipality already formulated an accounting policy based on this standard for such transactions.	Unknown
GRAP 106	Transfer of Functions Between Entities Not Under Common Control No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 107	Mergers No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

**1.7 Housing Development Fund**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

## **ACCOUNTING POLICIES**

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### **1.8 Leases**

A lease is classified as a finance lease if it substantially transfers all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not substantially transfer all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **The Municipality as Lessee**

Property, plant and equipment or intangible assets, except intangible assets such as licensing agreements, subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **The Municipality as Lessor**

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Payments received under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease.

## **ACCOUNTING POLICIES**

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### **1.9 Unspent conditional government grants and receipts**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

A liability for unspent conditional grants are recognised only to the extent that the conditions attached to the grant have not been satisfied and are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the operating account of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

### **1.10 Unpaid conditional government grants and receipts**

Unpaid conditional grants are assets in terms of GRAP that are separately reflected on the Statement of Financial Position. The asset is recognised when the municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grants as receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

### **1.11 Provisions and contingencies**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

## **ACCOUNTING POLICIES**

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- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

### **1.12 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

#### **Short-term employee benefits**

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay and bonuses, are recognised during the period in which the employee renders the related service. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### **Long-service award**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation is valued by independent qualified actuaries at year-end and the corresponding liability is raised. Payments set-off against the liability, including notional interest, resulting from the valuation by the actuaries, are charged against the statement of financial performance.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

#### **Accrued leave pay**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

#### **Staff Bonuses**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonuses accrued at year end for each employee.



## **ACCOUNTING POLICIES**

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### **1.12 Employee benefits (continued)**

#### **Post-employment benefits**

Post-employment benefits are benefits paid for current employees to provide for their retirement.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The Municipality provides post retirement benefits for its employees and councillors. Council pays 70% as contributions and the remaining 30% are paid by the members.

#### **Multi-employer Defined Benefit and Defined Contribution Plans**

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

The municipality contributes to various National- and Provincial-administered plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 15 of the Financial Statements for details)

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans. It defines an amount of benefit that an employee will receive on retirement. The municipality's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value. Any unrecognised past service cost and the fair value of any plan assets are deducted.

Actuarial gains and losses comprise of adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

## **ACCOUNTING POLICIES**

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### **1.12 Employee benefits (continued)**

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

## **ACCOUNTING POLICIES**

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### **1.12 Employee benefits (continued)**

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

## **ACCOUNTING POLICIES**

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### **1.12 Employee benefits (continued)**

#### **Other post retirement obligations**

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The Municipality provides post-retirement medical benefits by subsidising the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

### **1.13 Borrowing costs**

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.14 Property, plant and equipment**

#### **Recognition and measurement**

Property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably.

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, where applicable.

Property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and other directly attributable costs incurred in the acquisition, establishment and installation of such assets so as to bring them to a working condition for their intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Trade discounts and rebates are deducted in arriving at the cost. Borrowing costs related to the acquisition, construction or production of qualifying assets are capitalised.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## **ACCOUNTING POLICIES**

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### **1.14 Property, plant and equipment (continued)**

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired are initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

The cost of day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

#### **Leased assets**

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Vehicles and office equipment acquired by way of finance leases are measured upon initial recognition at an amount equal to the lower of its fair value and the present value of the minimum lease payments less accumulated depreciation and accumulated impairment losses. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Leased assets are depreciated over the lesser of the useful life or lease term.

#### **Subsequent costs**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

#### **Depreciation**

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful life of each item of property, plant and equipment.

Depreciation begins when an asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management, and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100. A non-current asset or disposal group is not depreciated while it is classified as held for sale. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

## ACCOUNTING POLICIES

### 1.14 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life in years
Infrastructure	
• Electricity	20 - 30
• Roads and paving	3 - 30
• Water	10 - 20
• Gas	20
• Sewerage	3 - 30
• Pedestrian malls	20
• Airports	20
• Security measures	3 - 30
Community	
• Buildings	20 - 30
• Recreational facilities	20
Other	
• Office equipment	3 - 5
• Furniture and fittings	7
• Bins and containers	10
• Emergency equipment	5 - 15
• Motor vehicles	3 - 20
• Aircraft	Not applicable
• Watercraft	15
• Plant and equipment	2 - 20
Other - general	
• Animal pounds	5
Land and buildings	
• Buildings	30
• Land	Not applicable

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

## **ACCOUNTING POLICIES**

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### **1.14 Property, plant and equipment (continued)**

Application of deemed cost - Directive 7:

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007.

### **1.15 Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

#### **Research and development**

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that the Municipality intends to complete the intangible asset for use or sale; it is technically feasible to complete the intangible asset; the Municipality has the resources to complete the project; and it is probable that the municipality will receive future economic benefits or service potential.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in surplus or deficit when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure capitalised only if development costs can be measured reliably, the product or processes are technically and commercially feasible, future economic benefits or service potential are probable, and the municipality intends to and has sufficient resources to complete the development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in surplus or deficit when incurred. Other development expenditure is recognised in surplus or deficit when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

## **ACCOUNTING POLICIES**

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### **1.15 Intangible assets (continued)**

#### **Subsequent measurement**

After the initial measurement of intangible assets, subsequent expenditure is only capitalised if future economic benefits or service potential over the total life of the intangible assets, in excess of the most recently assessed standard of performance of the existing intangible assets, will flow to the municipality.

Intangible assets consist of computer software.

Amortisation is charged on a straight-line basis over their useful lives, which is estimated to be between 5 to 10 years. (2012: 5 to 10 years). Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

Amortisation methods and useful lives are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

#### **Derecognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.16 Investment property**

#### **Initial Recognition**

Investment property shall be recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Investment property acquired at no or nominal consideration is initially recognised at fair value and subsequently carried at the initially determined fair value less accumulated depreciation and accumulated impairment losses.



## **ACCOUNTING POLICIES**

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### **1.16 Investment property (continued)**

#### **Subsequent Measurement**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

#### **Depreciation and impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Investment Property	Years
Buildings	30

#### **Derecognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **Application of deemed cost - Directive 7**

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007.

### **1.17 Non-current assets held for sale and disposal groups**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **1.18 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

## **ACCOUNTING POLICIES**

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### **1.18 Impairment of cash-generating assets (continued)**

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Recognition and measurement (Individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

## **ACCOUNTING POLICIES**

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### **1.18 Impairment of cash-generating assets (continued)**

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- Its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **1.19 Inventories**

Inventories, consisting of consumable stores, raw materials and properties held for sale are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties held for sale are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Cost of inventory comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

## **ACCOUNTING POLICIES**

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### **1.19 Inventories (continued)**

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Even used for housing developments are properties that was part of the commonage when the municipality was established and the municipality received these properties at no or nominal consideration. The value of these properties is deemed to be equal to their fair value on the date of acquisition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventory is not used as security unless stated otherwise in the notes.

### **1.20 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

## **ACCOUNTING POLICIES**

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### **1.20 Financial instruments (continued)**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities.

A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;

## **ACCOUNTING POLICIES**

### **1.20 Financial Instruments (continued)**

- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### **Classification**

The municipality has the following types of **financial assets** as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables	Financial asset measured at amortised cost
Loans and receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality has the following types of **financial liabilities** as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Loans and borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

### **Initial recognition**

The municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

## **ACCOUNTING POLICIES**

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### **1.20 Financial instruments (continued)**

#### **Initial measurement of financial assets and financial liabilities**

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Gains and losses**

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### **Derecognition**

##### **Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

## **ACCOUNTING POLICIES**

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### **1.20 Financial Instruments (continued)**

- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

### **Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).



## **ACCOUNTING POLICIES**

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### **1.20 Financial Instruments (continued)**

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

### **1.21 Revenue**

Revenue includes rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be reliably measured, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value-added tax, estimated returns, rebates and discounts. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

#### **Revenue from Exchange Transactions**

##### **Service Charges**

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

##### **Pre-paid electricity**

Revenue from the sale of electricity prepaid units is recognised when the risks and rewards of ownership has passed to the buyer, i.e. at the point of sale. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date. The consumption of pre-paid electricity is measured by using a trend analysis and other historical data about electricity usage.

## **ACCOUNTING POLICIES**

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### **1.21 Revenue (continued)**

#### **Interest earned and rentals received**

Interest income is recognised in surplus or deficit as it accrues, using the effective interest rate method. Rental income is recognised on a straight-line basis over the lease term. Interest may be transferred from the Accumulated Surplus to the Housing Development Fund.

#### **Dividends**

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

#### **Royalties**

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

#### **Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the service is rendered by applying the relevant approved tariff. This includes the issuing of licences and permits.

#### **Agency commission**

Commission for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

#### **Housing rental and installments**

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

#### **Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

#### **Revenue from non-exchange transactions**

##### **Rates and taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised using the effective interest method. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

##### **Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines that will be received based on past experience of amounts collected. There is uncertainty regarding recoverability of outstanding fines and summonses. Spot fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. It is therefore not possible to measure this revenue when the summons is issued and an estimate of summonses is not included, as a reliable estimate can not be made.

##### **Donations and Contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the property, plant and equipment received or receivable. Contributed property, plant and equipment are recognised when the risks and rewards of ownership have transferred to the municipality.

## **ACCOUNTING POLICIES**

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### **1.21 Revenue (continued)**

#### **Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

#### **Unconditional grant**

An unconditional grant is recognised in surplus or deficit when the grant becomes receivable.

#### **Conditional grants and receipts**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the grantor it is recorded as part of the liability and if not it is recognised as interest earned in the statement of financial performance.

Grants that compensate the municipality for expenses incurred are recognised in surplus or deficit on a systematic basis in the same periods in which the expenses are recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

#### **Grants and receipts of a revenue nature**

Income is transferred to the statement of financial performance as revenue to the extent that the criteria, conditions or obligations have been met.

### **1.22 Related parties**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

## **ACCOUNTING POLICIES**

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### **1.23 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance in the year that the expense was incurred and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.24 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.25 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance in the year that the expenditure was recorded and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.26 Budget Information**

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/12 to 30/06/13.

The budget for the municipality includes all the approved budgets under its control.

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The financial statements and the budget are on the same basis of accounting except for certain accounting entries (e.g. movement in legal provisions) therefore a reconciliation between the statement of financial performance and the budget have been included in the financial statements. Refer to the Statement of Comparison of Budget and Actual Amounts.

## **ACCOUNTING POLICIES**

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### **1.27 Value Added Tax**

Revenue, expenses and assets are recognised net of the amounts of Value Added Tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

The Municipality accounts for Value Added Tax on the cash basis. The municipality is liable to account for Value Added Tax at the standard rate (14%) in terms of section 7(1) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or is out of scope for VAT purposes. The timing of payments to or from the South African Revenue Service is the last day of each of the twelve months of the financial year.

### **1.28 Grant-in-aid**

The municipality transfers money to individuals, organisations and other sectors of government from time to time in accordance with Section 67 of the MFMA. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

### **1.29 Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### **1.30 Foreign currencies**

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance

### **1.31 Change in accounting policy, estimates and errors**

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 39 of the financial statements for details of corrections of errors recorded during the period under review.

## **ACCOUNTING POLICIES**

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### **1.32 Events after reporting date**

Events after the reporting date that are classified as adjusting events are accounted for in the financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the financial statements.

### **1.33 Comparative information**

#### **Prior year comparatives**

When the presentation or classification of items in the financial statements is amended, comparative amounts are restated or reclassified except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the amendment. The nature and reason for the restatement or reclassification is disclosed in note 39.

### **1.34 Heritage assets**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

#### **Recognition**

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### **Initial measurement**

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### **Subsequent measurement**

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### **Impairment**

The municipality assess at each reporting date whether there is an indication that the heritage assets may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

## **ACCOUNTING POLICIES**

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### **1.34 Heritage assets (continued)**

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

#### **Transitional provision**

The municipality adopted the Standard of GRAP on heritage assets (GRAP103) in 2013. The adopting of GRAP103 is made in accordance with its transitional provision as per Directive 3 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in note 10. The transitional provision expires on 30/06/15.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1).
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4).
- Leases (GRAP 13).
- Segment Reporting (GRAP 18).
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets nor measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

### **1.35 Impairment of non-cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

## **ACCOUNTING POLICIES**

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### **1.35 Non-current assets held for sale and disposal groups (continued)**

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.



## **ACCOUNTING POLICIES**

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### **1.35 Non-current assets held for sale and disposal groups (continued)**

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Reversal of an impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.36 Capital commitments**

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### **1.37 Amended disclosure policy**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>2. Inventories</b>		
Consumable stores - at cost	7,833,516	7,238,197
Maintenance materials, chemicals and water reserve - at cost	9,677,608	9,304,437
Work-in-progress - Property Developments - at cost	279,127	339,041
Unsold Properties Held for Resale - at cost	165,904,400	168,195,150
	<b>183,694,651</b>	<b>185,076,825</b>

The cost of inventories recognised as an expense includes R 157 685 (2012: R 47 697) in respect of impairment of inventory to net realisable value (refer to note 32).

Even used for housing developments measured as per accounting policy 1.19.

The prior period balances were restated for prior period error adjustments, refer to note 39.1

**3. Trade receivables from exchange and non-exchange transactions**

**Trade receivables from exchange transactions**

<b>Gross balance</b>		
Electricity	36,120,931	39,125,932
Housing rental	371,083	311,015
Housing loan installments	857,165	942,963
Other consumer debtors	6,889,521	5,726,719
Refuse	12,853,514	10,517,452
Sewerage	17,325,599	13,554,357
Water	32,729,251	22,314,764
	<b>107,147,044</b>	<b>92,493,202</b>
<b>Less: Allowance for impairment</b>		
Electricity	8,111,885	9,606,543
Housing rentals	345,150	76,363
Housing loans installments	792,290	231,525
Other consumer receivables	1,304,708	777,281
Refuse	10,148,032	2,582,337
Water	24,455,595	5,478,917
Sewerage	12,449,713	3,327,985
	<b>57,607,373</b>	<b>22,080,951</b>
<b>Net balance</b>		
Electricity	28,009,046	29,519,389
Housing rental	25,933	234,652
Housing loan installments	64,875	711,438
Other consumer receivables	5,584,813	4,949,438
Refuse	2,705,482	7,935,115
Sewerage	4,875,886	10,226,372
Water	8,273,656	16,835,847
	<b>49,539,691</b>	<b>70,412,251</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

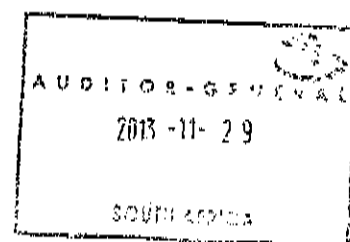
**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>3. Trade receivables from exchange and non-exchange transactions (continued)</b>		
<b>The ageing from trade receivables from exchange transactions</b>		
<b>Electricity</b>		
Current (0 -30 days)	22,237,622	28,133,326
31 - 60 days	2,211,316	1,483,772
61 - 90 days	1,000,564	552,308
91 - 120 days	694,865	429,811
> 121 days	9,976,564	8,526,715
Less: Impairment	(8,111,885)	(9,606,543)
	<b>28,009,046</b>	<b>29,519,389</b>
<b>Housing rentals</b>		
Current (0 -30 days)	60,311	44,559
31 - 60 days	12,790	8,894
61 - 90 days	9,613	6,776
91 - 120 days	8,771	6,493
> 121 days	279,598	244,293
Less: Impairment	(345,150)	(76,363)
	<b>25,933</b>	<b>234,652</b>
<b>Housing loans installments</b>		
Current (0 -30 days)	69,845	49,918
31 - 60 days	21,743	11,643
61 - 90 days	15,313	9,129
91 - 120 days	15,303	9,450
> 121 days	734,961	862,823
Less: Impairment	(792,290)	(231,525)
	<b>64,875</b>	<b>711,438</b>
<b>Other consumer receivables</b>		
Current (0 -30 days)	720,691	948,905
31 - 60 days	643,497	211,099
61 - 90 days	165,952	221,090
91 - 120 days	8,787	187,291
> 121 days	5,350,594	4,158,334
Less: Impairment	(1,304,708)	(777,281)
	<b>5,584,813</b>	<b>4,949,438</b>
<b>Refuse</b>		
Current (0 -30 days)	2,907,802	2,450,994
31 - 60 days	614,398	458,476
61 - 90 days	436,852	315,654
91 - 120 days	348,987	256,841
> 121 days	8,545,475	7,035,487
Less: Impairment	(10,148,032)	(2,582,337)
	<b>2,705,482</b>	<b>7,935,115</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>3. Trade receivables from exchange and non-exchange transactions (continued)</b>		
<b>Sewerage</b>		
Current (0 -30 days)	3,834,908	3,185,963
31 - 60 days	879,071	624,023
61 - 90 days	614,607	429,799
91 - 120 days	483,149	359,711
> 121 days	11,513,864	8,954,863
Less: Impairment	(12,449,713)	(3,327,987)
	<b>4,875,886</b>	<b>10,226,372</b>
<b>Water</b>		
Current (0 -30 days)	9,049,271	9,320,701
31 - 60 days	2,167,937	932,255
61 - 90 days	1,826,729	602,163
91 - 120 days	1,507,675	530,703
> 120 days	18,177,639	10,928,942
Less: Impairment	(24,455,595)	(5,478,917)
	<b>8,273,656</b>	<b>16,835,847</b>
<b>Total</b>		
Current (0 -30 days)	38,880,450	44,134,366
31 - 60 days	6,550,752	3,730,162
61 - 90 days	4,069,630	2,136,919
91 - 120 days	3,067,537	1,780,300
121 - 365 days	54,578,695	40,711,457
Less: Impairment	(57,607,373)	(22,080,953)
	<b>49,539,691</b>	<b>70,412,251</b>
<b>Summary of receivables from exchange transactions by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	33,142,745	36,510,086
31 - 60 days	5,584,039	3,085,770
61 - 90 days	3,469,063	1,767,763
91 - 120 days	2,614,850	1,472,750
> 121 days	46,524,352	33,678,490
	91,335,049	76,514,859
Less: Allowance for impairment	(53,386,134)	(18,758,442)
	<b>37,948,915</b>	<b>57,756,417</b>
<b>Industrial / commercial</b>		
Current (0 -30 days)	4,780,155	6,462,617
31 - 60 days	805,382	546,209
61 - 90 days	500,341	312,910
91 - 120 days	377,138	260,690
> 121 days	6,710,175	5,961,399
	13,173,191	13,543,825
Less: Allowance for impairment	(4,221,239)	(3,322,509)
	<b>8,951,952</b>	<b>10,221,316</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>3. Trade receivables from exchange and non-exchange transactions (continued)</b>		
<b>National and provincial government and other</b>		
Current (0 -30 days)	957,550	1,161,662
31 - 60 days	161,332	98,182
61 - 90 days	100,227	56,246
91 - 120 days	75,547	46,859
> 121 days	1,344,167	1,071,568
	<u>2,638,823</u>	<u>2,434,517</u>
Less: Allowance for impairment	-	-
	<u><b>2,638,823</b></u>	<u><b>2,434,517</b></u>
<b>Total</b>		
Current (0 -30 days)	38,880,450	44,134,365
31 - 60 days	6,550,753	3,730,162
61 - 90 days	4,069,631	2,136,919
91 - 120 days	3,067,535	1,780,300
> 121 days	54,578,695	40,711,456
	<u>107,147,064</u>	<u>92,493,202</u>
Less: Allowance for impairment	<u>(57,607,373)</u>	<u>(22,080,951)</u>
	<u><b>49,539,691</b></u>	<u><b>70,412,251</b></u>
<b>Provision for debt impairment detail</b>		
Current (0 -30 days)	20,903,985	10,536,220
31 - 60 days	3,521,997	890,503
61 - 90 days	2,188,028	510,148
91 - 120 days	1,649,253	425,012
> 121 days	29,344,110	9,719,068
	<u><b>57,607,373</b></u>	<u><b>22,080,951</b></u>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	-	-
31 - 60 days	3,028,756	2,839,658
61 - 90 days	1,881,603	1,626,771
91 - 120 days	1,418,282	1,355,288
> 121 days	25,234,585	30,992,389
	<u><b>31,563,226</b></u>	<u><b>36,814,106</b></u>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**3. Trade receivables from exchange and non-exchange transactions (continued)**

**Reconciliation of debt impairment provision for receivables from exchange transactions**

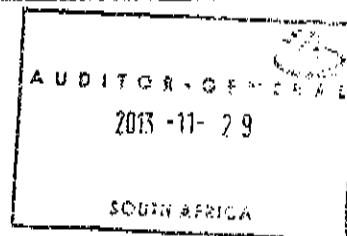
2013	Balance at the beginning of the year	Impairment losses recognised	Amounts written off as uncollectable (normal)	Amounts written off as uncollectable (indigent)	Balance at end of year
Electricity	9,606,543	(1,393,628)	(32,043)	(68,987)	8,111,885
Housing rentals	76,363	268,787	-	-	345,150
Housing loan installments	231,525	560,765	-	-	792,290
Other consumer receivables	777,281	527,426	-	-	1,304,707
Refuse	2,582,338	8,881,701	(169,578)	(1,146,429)	10,148,032
Sewerage	3,327,985	10,502,566	(114,817)	(1,266,021)	12,449,713
Water	5,478,917	20,447,489	(115,427)	(1,355,383)	24,455,596
	<b>22,080,952</b>	<b>39,795,106</b>	<b>(431,865)</b>	<b>(3,836,820)</b>	<b>57,607,373</b>

2012	Balance at the beginning of the year	Impairment losses recognised	Amounts written off as uncollectable (normal)	Amounts written off as uncollectable (indigent)	Balance at end of year
Electricity	9,957,891	34,915	(63,877)	(322,386)	9,606,543
Housing rentals	98,328	(21,965)	-	-	76,363
Housing loan installments	339,830	(108,305)	-	-	231,525
Other consumer receivables	1,397,316	(176,119)	-	(443,916)	777,281
Refuse	3,305,546	5,068,011	(13,036)	(5,778,184)	2,582,337
Sewerage	3,832,742	6,392,072	(32,871)	(6,863,958)	3,327,985
Water	8,907,778	3,319,686	(83,768)	(6,664,779)	5,478,917
	<b>27,839,431</b>	<b>14,508,295</b>	<b>(193,552)</b>	<b>(20,073,223)</b>	<b>22,080,951</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>3. Trade receivables from exchange and non-exchange transactions (continued)</b>		
<b>Trade receivables from non-exchange transactions</b>		
<b>Rates</b>		
Gross balance	26,646,474	22,381,401
Less: Allowance for impairment	(3,006,646)	(5,495,278)
<b>Net balance</b>	<b>23,639,828</b>	<b>16,886,123</b>
<b>The ageing of trade receivables from non-exchange transactions</b>		
<b>Rates</b>		
Current (0-30 days)	7,171,835	6,293,040
31 - 60 days	1,465,130	1,092,749
61 - 90 days	813,781	563,011
91 - 120 days	616,896	447,662
121 - 365 days	16,578,832	13,984,939
Less: Impairment	(3,006,646)	(5,495,278)
	<b>23,639,828</b>	<b>16,886,123</b>
<b>Summary of receivables from non-exchange transactions by customer classification</b>		
<b>Consumers</b>		
Current (0-30 days)	6,382,331	5,205,908
31 - 60 days	1,303,843	903,975
61 - 90 days	724,197	465,750
91 - 120 days	548,986	370,328
> 121 days	14,753,772	11,569,020
	23,713,129	18,514,981
Less: Allowance for impairment	(2,807,270)	(4,668,406)
	<b>20,905,859</b>	<b>13,846,575</b>
<b>Industrial / commercial</b>		
Current (0-30 days)	626,394	921,493
31 - 60 days	127,966	160,012
61 - 90 days	71,076	82,442
91 - 120 days	53,880	65,551
> 121 days	1,448,010	2,047,822
	2,327,326	3,277,320
Less: Allowance for impairment	(199,377)	(826,872)
	<b>2,127,949</b>	<b>2,450,448</b>
<b>National and provincial government and other</b>		
Current (0-30 days)	163,108	165,639
31 - 60 days	33,321	28,762
61 - 90 days	18,508	14,819
91 - 120 days	14,030	11,783
> 121 days	377,051	368,098
	606,018	589,101
	<b>606,018</b>	<b>589,101</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>Total</b>		
Current (0 -30 days)	7,171,834	6,293,040
31 - 60 days	1,465,130	1,092,749
61 - 90 days	813,781	563,011
91 - 120 days	616,896	447,662
> 121 days	16,578,833	13,984,939
	<b>26,646,474</b>	<b>22,381,401</b>
Less: Allowance for impairment	<b>(3,006,646)</b>	<b>(5,495,278)</b>
	<b>23,639,828</b>	<b>16,886,123</b>
<b>Provision for debt impairment detail</b>		
Current (0 -30 days)	809,232	1,545,122
31 - 60 days	165,317	268,301
61 - 90 days	91,823	138,235
91 - 120 days	69,607	109,914
> 121 days	1,870,667	3,433,706
	<b>3,006,646</b>	<b>5,495,278</b>
<b>Total debtor past due not impaired</b>		
31 - 60 days	1,299,813	824,448
61 - 90 days	721,959	424,776
91 - 120 days	547,289	337,748
> 121 days	14,708,165	10,551,234
	<b>17,277,226</b>	<b>12,138,206</b>

**Reconciliation of debt impairment provision for receivables from non-exchange transactions**

<b>2013</b>	<b>Balance at the beginning of the year</b>	<b>Impairment losses recognised</b>	<b>Amounts written off as uncollectable (normal)</b>	<b>Amounts written off as uncollectable (Indigent)</b>	<b>Total</b>
Rates	5,495,278	(1,941,183)	(350,294)	(197,154)	3,006,647
<b>2012</b>	<b>Balance at the beginning of the year</b>	<b>Impairment losses recognised</b>	<b>Amounts written off as uncollectable (normal)</b>	<b>Amounts written off as uncollectable (Indigent)</b>	<b>Total</b>
Rates	1,044,876	6,337,969	(23,819)	(1,863,748)	5,495,278

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>4. Other receivables</b>		
Sundry receivables	39,634,817	31,344,086
Deposits	20,000	20,000
Loans to employees	11,798	43,447
Non-cash portion of Housing Development Fund	1,221,666	1,291,305
Operating lease asset	174,930	181,083
George Housing Association	-	1,604,569
Salary control accounts	20,141	24,951
Short-term loans	15,910	15,910
Impairment allowance	(225,424)	(384,677)
	<b>40,873,838</b>	<b>34,140,674</b>

**Reconciliation for impairment allowance**

Opening balance	384,677	1,065,558
Amounts written off as uncollectable	(159,253)	(680,881)
	<b>225,424</b>	<b>384,677</b>

The impairment allowance was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios. The impairment allowance on Other Receivables exists predominantly due to the possibility that these debts will not be recovered. Other Receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

**Operating lease asset**

Opening balance	181,083	186,801
Operating lease revenue recognised in the Statement of Financial Performance	(6,153)	(5,718)
	<b>174,930</b>	<b>181,083</b>

**Operating leases - as lessor (Income)**

**Minimum lease payments due**

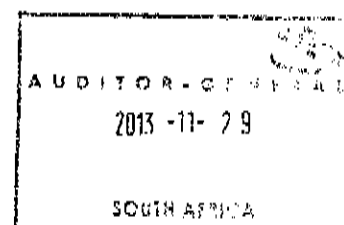
- within one year	531,298	338,028
- in second to fifth year inclusive	1,120,113	510,330
- later than five years	460,301	599,682
	<b>2,111,712</b>	<b>1,448,040</b>

Operating leases relate to property owned by the municipality with lease terms of between 5 and 20 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Municipal buildings
- Vacant land

No restrictions have been imposed on the municipality in terms of the operating lease agreements.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**4. Other receivables (continued)**

**George Housing Association**

The municipality contributed an amount of R5,1 million towards the establishment of the George Housing Association. The contributions were made in the 2005/06 to 2007/08 financial years with the last amount contributed during March 2008. The association was established as an Article 21 company and was never legally regarded as a municipal entity as stipulated in the Municipal Finance Management Act.

Upon legal action taken by the municipality, a court order was issued on 8 June 2012 against George Housing Association that the R5,1 million should be repaid to the municipality. The municipality received R1,604,568, being the balance in the bank account of the George Housing Association, on 5 July 2012. It is uncertain if the municipality will receive the balance of the R5,1 million.

An application for the liquidation of the association was brought during June 2013 in the High Court.

**5. VAT receivable**

VAT receivable from / (payable to) SARS	9,093,233	4,964,237
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VAT is payable to SARS on the payment basis. Only once payment is received from customers, VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

**6. Loans and receivables**

As at 30 June 2013	Gross balance	Impairment allowance	Net balance	Transferred to current assets	Non-current
Housing scheme loans	1,694,412	(926,781)	767,631	(121,730)	645,901
Sale of erven loans	159,382	-	159,382	(10,781)	148,601
Loans to other organisations	356,797	-	356,797	(116,655)	240,142
Actaris meter debt	184,276	-	184,276	(55,283)	128,993
	<u>2,394,867</u>	<u>(926,781)</u>	<u>1,468,086</u>	<u>(304,449)</u>	<u>1,163,637</u>
As at 30 June 2012	Gross balance	Impairment allowance	Net balance	Transferred to current assets	Non-current
Housing scheme loans	2,447,179	(1,738,966)	708,213	(147,992)	560,221
Sale of erven loans	155,927	-	155,927	(12,098)	143,829
Loans to other organisations	456,230	-	456,230	(99,433)	356,797
Actaris meter debt	109,935	-	109,935	(73,123)	36,812
	<u>3,169,271</u>	<u>(1,738,966)</u>	<u>1,430,305</u>	<u>(332,646)</u>	<u>1,097,659</u>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**6. Loans and receivables (continued)**

Loans and receivables are not secured.

**Housing scheme loans**

No housing loans may be granted to officials and the public. The outstanding amount is in respect of loans granted before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The interest rate applicable to the loans is 13.5%.

**Sale of erven loans**

As from 1 July 2006 no loan agreements are entered into for the sale of erven. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into. The interest rates applicable to the loans varies between 11.0% and 14.5%.

**Loans to other organisations**

The outstanding amount is in respect of loans granted to sports organisations (Section 185 (a) Ord.20 of 1974) before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The loans consists of a loan to George Golf Club at 17.0% and Outeniqua Bowling Club at 8.0%.

**Actaris meter costs**

Arrear amounts on services are capitalised on completion of a formal agreement. These arrear amounts are then paid to the municipality in monthly installments over a period not exceeding 60 months. No interest is charged on these amounts where the stipulations of the agreement are adhered to.

The management of the municipality is of the opinion that the carrying value of loans and receivables recorded at amortised cost in the Financial Statements approximate their fair values.

The fair value of loans and receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's trade receivables.

The provision for doubtful debts on other debtors (loans and receivables) exists due to the possibility that not all these debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

**Reconciliation of impairment allowance**

2013	Balance at beginning of year	Impairment losses reversed	Amounts written off as uncollectable	Balance at end of the year
Housing scheme loans	1,738,966	(812,185)	-	926,781
<b>2012</b>	Balance at beginning of the year	Impairment losses reversed	Amounts written off as uncollectable	Balance at end of the year
Housing scheme loans	3,027,341	(1,288,375)	-	1,738,966

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	19,150	20,650
Bank balances	266,857,976	218,880,367
	<u>266,877,126</u>	<u>218,901,017</u>

For the purposes of the cash flow statement, cash and cash equivalents include the above mentioned items, net of outstanding bank overdrafts.

**Cash and cash equivalents pledged as collateral**

No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review.

**The municipality had the following bank accounts**

<b>Account number / description</b>	<b>Bank statement balances</b>		<b>Cash book balances</b>	
	<b>30 June 2013</b>	<b>30 June 2012</b>	<b>30 June 2013</b>	<b>30 June 2012</b>
ABSA BANK - Cheque Account - 102 222 0981	266,343,216	218,953,142	266,762,126	218,880,367
ABSA ACTARIS - Cheque Account - 405 479 8136	95,850	91,750	-	-
ABSA - George Charitable Relief Fund - 914 955 4208	135,526	156,242	-	-
Cash on hand	-	-	19,150	20,650
<b>Total</b>	<u>266,574,592</u>	<u>219,201,134</u>	<u>266,781,276</u>	<u>218,901,017</u>

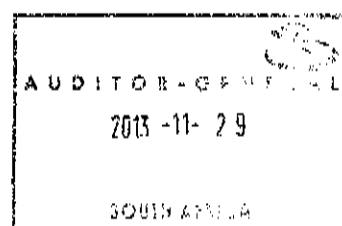
**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings.

The credit rating was obtained from Moody's Investor Services Inc.

**Credit rating**

C-	<u>266,478,742</u>	<u>219,109,384</u>
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# George Local Municipality

Financial Statements for the year ended 30 June 2013

## 8. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land and Buildings	951,408,653	(12,434,157)	938,974,496	952,829,198	(12,369,199)	940,459,999
Infrastructure	1,723,941,756	(516,425,277)	1,207,516,479	1,597,081,953	(429,107,413)	1,167,974,540
Community assets	197,980,108	(53,827,261)	144,152,847	199,908,700	(47,451,598)	152,457,102
Other	101,314,592	(61,125,097)	40,189,495	99,038,411	(55,247,197)	43,791,214
Work in progress	4,192,277	-	4,192,277	19,072,619	-	19,072,619
<b>Total</b>	<b>2,978,837,386</b>	<b>(643,811,792)</b>	<b>2,335,025,594</b>	<b>2,867,930,881</b>	<b>(544,175,407)</b>	<b>2,323,755,474</b>

## Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	WIP Transfers	Transfer to investment property (cost)	Transfers from/(to) investment property (Acc Depreciation)	Depreciation	Total
Land and buildings	940,459,999	98,500	(202,014)	-	-	-	(1,381,989)	938,974,496
Infrastructure	1,167,974,540	107,027,260	-	19,832,543	-	-	(87,317,864)	1,207,516,479
Community assets	152,457,102	2,774,222	-	-	(4,702,815)	1,718,482	(8,094,144)	144,152,847
Other	43,791,214	5,108,658	(109,951)	-	-	-	(8,600,426)	40,189,495
Work in progress	19,072,619	4,952,201	-	(19,832,543)	-	-	-	4,192,277
<b>Total</b>	<b>2,323,755,474</b>	<b>119,960,841</b>	<b>(311,965)</b>	<b>-</b>	<b>(4,702,815)</b>	<b>1,718,482</b>	<b>(105,394,423)</b>	<b>2,335,025,594</b>

The municipality received public donated assets of R749,384 which forms part of the additions for the year.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**8. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2012**

	Opening balance	Additions	Book value of DMA assets received	Disposals	Transfers from Inventory / (to)	WIP Transfers	Transfers from Investment property / (to)	Depreciation	Total
Land and Buildings	955,519,555	49,480	8,393,517	(10,194,190)	690,600	-	(12,603,000)	(1,395,963)	940,459,999
Infrastructure	1,078,009,218	88,132,656	86,603,530	(117,842)	-	990,211	-	(85,643,233)	1,167,974,540
Community assets	147,371,131	7,252,545	5,710,191	(870,224)	-	3,000	-	(7,009,541)	152,457,102
Other	50,501,662	1,244,975	3,034,891	(252,869)	-	-	-	(10,737,445)	43,791,214
Work in progress	7,019,381	13,046,449	-	-	-	(993,211)	-	-	19,072,619
	<b>2,238,420,947</b>	<b>109,726,105</b>	<b>103,742,129</b>	<b>(11,435,125)</b>	<b>690,600</b>	<b>-</b>	<b>(12,603,000)</b>	<b>(104,786,182)</b>	<b>2,323,755,474</b>

**Borrowing costs capitalised and included in property, plant and equipment**

	2013	2012
Buildings	-	348,160
Infrastructure	-	193,923
	<b>-</b>	<b>542,083</b>

Assets have been identified for which their cost price was incorrectly disclosed as part of work in progress assets, while they have already been commissioned prior to the 2012 financial year. These assets should therefore have been recognised under their respective categories to which it was commissioned to. Comparative figures for Infrastructure and Work in progress were accordingly adjustment.

The classification of heritage assets as presented in last year's financial statements does not comply with the requirements of GRAP 103 and have been reclassified as part of land and buildings. Heritage assets included in Land and Buildings were accounted for in terms of GRAP 103 and were retrospectively reclassified. Refer to note 10.

Refer to note 50 for the detailed analysis of property, plant and equipment.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**9. Intangible assets**

	2013			2012		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3,667,247	(2,378,243)	1,289,004	3,582,773	(1,780,702)	1,802,071

**Reconciliation of intangible assets - 2013**

	Opening balance	Additions	Amortisation	Total
Computer software	1,802,071	84,474	(597,541)	1,289,004

**Reconciliation of intangible assets - 2012**

	Opening balance	Additions	Amortisation	Total
Computer software	2,098,782	271,816	(568,527)	1,802,071

**10. Heritage assets**

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments and open areas	4,236,000	-	4,236,000	4,236,000	-	4,236,000

**Reconciliation of heritage assets 2013**

	Opening balance	Total
Historical monuments and open areas	4,236,000	4,236,000

**Reconciliation of heritage assets 2012**

	Opening balance	Book value of DMA assets received	Total
Historical monuments and open areas	4,050,000	186,000	4,236,000



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>10. Heritage assets (continued)</b>		
<b>Details of heritage assets</b>		
Wilderness Commonage	4,050,000	4,050,000
Old Uniondale Fort	186,000	186,000
	<b>4,236,000</b>	<b>4,236,000</b>

Wilderness Commonage: This piece of land has a cultural and historical value due to being a stop over or resting place for ox wagen travelling to Cape Town.

Old Uniondale Fort: During the Anglo Boer War, Uniondale was protected by six British forts of which one has been restored to it's original state.

**11. Investment property**

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	154,765,474	(2,024,539)	152,740,935	150,062,659	(144,484)	149,918,175

**Reconciliation of Investment property - 2013**

	Opening balance	Transfer from / (to) property, plant and equipment (cost)	Accumulated depreciation (brought forward) of transferred PPE	Depreciation	Total
Land and Buildings	149,918,175	4,702,815	(1,718,482)	(161,573)	152,740,935

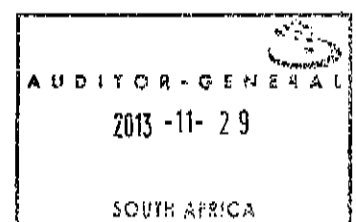
**Reconciliation of Investment property - 2012**

	Opening balance	Transfer from / (to) property, plant and equipment	Depreciation	Total
Land and Buildings	137,320,001	12,603,000	(4,826)	149,918,175

**Other disclosures**

Included in the surplus for the year are the following:

Total rental income from investment property	446,380	534,127
Total operating expenses arising from investment property generating rental revenue	-	(70,020)
Total operating expenses arising from investment property not generating rental revenue	-	-
	<b>446,380</b>	<b>464,107</b>





**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>12. Loans and borrowings</b>		
<b>At amortised cost</b>		
Annuity loans	484,455,446	517,102,524
Other loans	2,578,119	3,774,473
	<b>487,033,565</b>	<b>520,876,997</b>
<b>Non-current liabilities</b>		
Annuity loans	448,465,183	484,455,446
Other loans	1,605,272	2,578,119
	<b>450,070,455</b>	<b>487,033,565</b>
<b>Current liabilities</b>		
Annuity loans	35,990,263	32,647,078
Other loans	972,847	1,196,354
	<b>36,963,110</b>	<b>33,843,432</b>

**Annuity loans**

Annuity loans are repaid over periods varying from 2 years to 16 years (2012: 3 years to 17 years) and at interest rates varying from 6.75% to 12,665% (2012: 6.75% to 12,665%) per annum. Annuity loans are not secured.

**Other loans**

Other loans was used for the phased electrification of dwellings in the greater George area not yet electrified. Other loans are repaid over periods varying from 1 year to 7 years (2012: 1 year to 8 years) and at interest rates varying from 7.835% to 12,00% (2012: 7,835% and 12,00%) per annum. Other loans are not secured.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>13. Trade and other payables from exchange transactions</b>		
Trade payables	62,818,098	51,995,000
Payments received in advance	8,084,978	5,518,177
Retentions	13,428,961	11,352,458
Accrued bonus	6,491,659	6,050,038
Sundry Deposits	6,502,583	6,030,721
Other payables	9,899,266	11,411,449
Operating lease liability	4,539	5,628
	<b>107,230,084</b>	<b>92,363,471</b>

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within credit timeframe.

The management of the municipality is of the opinion that the carrying value of trade and other payables approximate their fair values. The fair value of trade and other payables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

Operating leases with fixed escalation clauses are recognised on the straight-line basis. The operating lease liability was calculated as follows:

**Operating lease liability**

Balance at beginning of year	5,628	13,324
Operating lease expenses recognised in the Statement of Financial Performance	(1,089)	(7,696)
	<b>4,539</b>	<b>5,628</b>

Refer to note 34 for information on operating lease commitments.

**Accrued bonus**

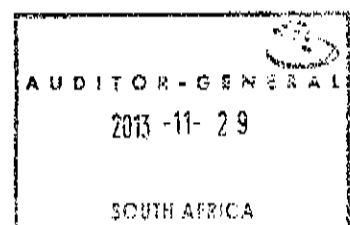
Balance at beginning of the year	6,050,038	5,542,566
Provision transferred with DMA transaction	-	199,435
Additional bonus accrual recognised during the year	441,621	308,037
	<b>6,491,659</b>	<b>6,050,038</b>

**14. Consumer deposits**

Electricity and water	17,697,494	15,933,169
Guarantees		
Guarantees held in lieu of electricity and water deposits	8,174,175	7,543,794

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding accounts.

Guarantees are given by business consumers on application for new water and electricity connections in stead of deposits. In cases where consumers default on their accounts, the municipality can request the guarantee amounts from the consumers' bank as payment for the outstanding accounts.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>15. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Non-current liabilities</b>		
Post-Retirement Medical Aid benefits liability	101,319,347	93,042,103
Ex-gratia pension benefits liability	2,926,051	2,783,411
Long service awards	14,757,532	13,320,814
	<b>119,002,930</b>	<b>109,146,328</b>
<b>Current liabilities</b>		
Post-Retirement Medical Aid benefits liability	4,102,860	3,797,784
Ex-gratia pension benefits liability	261,289	255,749
Long service awards	1,878,488	1,047,426
Performance bonus	-	650,950
Staff leave	22,230,646	18,830,164
	<b>28,473,283</b>	<b>24,582,073</b>
<b>Total liabilities</b>		
Post-Retirement Medical Aid benefits liability	105,422,207	96,839,887
Ex-gratia pension benefits liability	3,187,340	3,039,160
Long service awards	16,636,020	14,368,240
Performance bonus	-	650,950
Staff leave	22,230,646	18,830,164
	<b>147,476,213</b>	<b>133,728,401</b>

**Post-retirement medical aid benefit liability**

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2013. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

In-service (Employees) members	514	469
In-service (Employees) non-members	474	504
Continuation members (Retirees, widowers and orphans)	128	125
	<b>1,116</b>	<b>1,098</b>
 In-service members	 45,710,253	 39,404,843
Continuation members	59,711,954	57,435,044
	<b>105,422,207</b>	<b>96,839,887</b>

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas
- LA Health
- Hosmed
- Key Health

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**15. Employee benefit obligations (continued)**  
• Samwumed

The Current-service cost for the year ending 30 June 2014 is estimated to be R 3 731 100 (2013: R 3 331 550) whereas the interest cost for the ensuing year is estimated to be R 8 808 700 (2013: R 7 335 837).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

**i) Rate of interest**

Discount rate	8.52 %	7.72 %
Health care cost inflation rate	7.52 %	6.79 %
Net effective discount rate	0.93 %	0.88 %
Expected retirement age - females	62	62
Expected retirement age - males	62	62

**ii) Mortality rates**

Pre-retirement	SA 85 - 90 mortality table
Post-retirement	PA (90 - 1) ultimate mortality table

**iii) Normal retirement age**

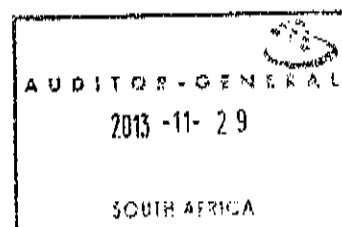
The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	105,422,207	96,839,887
Fair value plan assets	-	-
	<b>105,422,207</b>	<b>96,839,887</b>
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	105,422,207	96,839,887
	<b>105,422,207</b>	<b>96,839,887</b>

Amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	3,331,550	2,683,271
Interest cost	7,335,837	6,985,028
Recognised actuarial losses / (gains)	2,274,429	5,334,988
<b>Total included in staff cost (refer to note 24)</b>	<b>12,941,816</b>	<b>15,003,287</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>15. Employee benefit obligations (continued)</b>		
The movement in the defined benefit obligation over the year is as follows:		
Balance at the beginning of the year	96,839,887	82,990,252
- Liability transferred with DMA transaction	-	2,352,508
- Recognised past service cost	-	-
- Current service cost	3,331,550	2,683,271
- Interest cost	7,335,837	6,985,028
- Actuarial losses (gains)	2,274,429	5,334,988
- Benefits paid	(4,359,496)	(3,506,160)
<b>Balance at the end of the year</b>	<b>105,422,207</b>	<b>96,839,887</b>

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

<b>Increase</b>		
Effect on the current service cost and interest cost	12,707,300	11,418,100
Effect on the defined benefit obligation	118,129,507	112,600,000
<b>Decrease</b>		
Effect on the current service cost and interest cost	(9,046,300)	(8,266,500)
Effect on the defined benefit obligation	96,375,907	84,039,000

**Ex-gratia pension liability**

The Ex-gratia pension benefit plan is a defined benefit plan. As at 30 June 2013, 23 pensioners were eligible for payments in terms of this plan.

The Municipality provides pension benefits to all employees that are not members of the Pension or Provident Funds, that have completed at least 10 years of service at the Council and have reached the age of 60. The benefit is calculated according to the average annual salary earned during the last year of service multiplied by number of years of service, divided by 60.

The current-service cost for the ensuing year is estimated to be Rnil (2013: Rnil), whereas the interest cost for the next year is estimated to be R 219,405 (2013: R 251 820).

Pensioners	23	23
Eligible employees	3	3
	<b>26</b>	<b>26</b>

The principal assumptions used for the purposes of the actuarial valuations were as follows:

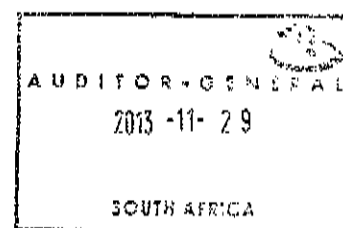
**i) Rate of interest**

Discount rate	7.17 %	7.96 %
Net effective discount rate	3.15 %	3.24 %
Pension increase rate	3.90 %	4.57 %

Expected retirement age - females	62	62
Expected retirement age - males	62	62

**ii) Mortality rates**

Pre-retirement	SA 85 - 90 mortality table
Post-retirement	PA (90 - 1) ultimate mortality table



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**15. Employee benefit obligations (continued)**

**iii) Normal retirement age**

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	3,187,340	3,039,160
Fair value of plan assets	-	-
	<u>3,187,340</u>	<u>3,039,160</u>
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	3,187,340	3,039,160
<b>Net Liability</b>	<u>3,187,340</u>	<u>3,039,160</u>

The amount recognised in the Statement of Financial Performance are as follows:

Current service cost	-	-
Interest cost	251,820	237,737
Recognised actuarial losses / (gains)	139,278	192,236
	<u>391,098</u>	<u>429,973</u>

The movement in the defined benefit obligation over the year is as follows:

Balance at the beginning of the year	3,039,160	2,872,263
- Recognised past service cost	-	-
- Current service cost	-	-
- Interest cost	251,820	237,737
- Actuarial losses / (gains)	139,278	192,236
- Benefits paid	(242,918)	(263,076)
	<u>3,187,340</u>	<u>3,039,160</u>

**Long service awards**

The municipality's obligation for Long Service Awards is a defined benefit plan. This plan is wholly unfunded as no contributions are made by the municipality into funds that are legally separate from the municipality and from which the employee benefits are paid (each subsequent financial year's expected payments of long service bonuses are budgeted for).

The municipality, in substance, underwrites the actuarial and investment risks associated with the plan. Consequently, the expense recognised for the defined benefit plan is the full additional liability accrued due to additional benefit entitlement. The municipality's net obligation in respect of the defined benefit long service allowances is the present value of the defined benefit obligation less the fair value of any plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows of the benefits that will be paid to employees and using suitable interest rates.

The calculation is performed by registered actuaries using the projected unit credit method. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2013.

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Financial Statements for the year ended 30 June 2013

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**15. Employee benefit obligations (continued)**

At year end, 990 (2012: 1 001) employees were eligible for Long-services Allowances. The future service cost for the ensuing year is estimated to be R 1 238 555 (2013: R 1 635 921), whereas the interest cost for the ensuing year is estimated to be R 1 152 511 (2013: R 906 140).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

**i) Rate of interest**

Discount rate	7.33 %	6.54 %
Benefit inflation rate	6.80 %	5.97 %
Net effective discount rate	0.51 %	0.54 %

Expected retirement age - females	62	62
Expected retirement age - males	62	62

**ii) Mortality rates**

Pre-retirement	SA 85 - 90 mortality table
Post-retirement	PA (90 - 1) ultimate mortality table

**iii) Normal retirement age**

The normal retirement age for employees of the municipality was assumed to be 65 years where data was unavailable.

The amounts recognised in the Statement of Financial Position are as follows:

Project fund obligations	16,636,020	14,368,240
Plan assets	-	-
	<b>16,636,020</b>	<b>14,368,240</b>
Unrecognised post-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Post-Retirement Gratuity Obligation	16,636,020	14,368,240
	<b>16,636,020</b>	<b>14,368,240</b>

Amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,635,921	1,248,052
Interest cost	906,140	855,422
Recognised actuarial losses / (gains)	773,145	1,381,833
<b>Total included in staff cost (refer to note 24)</b>	<b>3,315,206</b>	<b>3,485,307</b>
Balance at the beginning of the year	14,368,240	11,420,234
- Liability transferred with DMA transaction	-	455,569
- Current service cost	1,635,921	1,248,052
- Interest cost	906,140	855,422
- Recognised actuarial losses	773,145	1,381,833
- Benefits paid	(1,047,426)	(992,870)
	<b>16,636,020</b>	<b>14,368,240</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

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**15. Employee benefit obligations (continued)**

**Multi-employer retirement benefit information**

Employees belong to a variety of approved Pension and Provident Funds as described below. These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

The Cape Joint Pension Fund and Cape Joint Retirement Fund are defined benefit plans, whereas the Municipal Councillors Fund and the Provident Fund are defined contribution plans. All of these afore-mentioned funds are multi-employer plans. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers
- One set of financial statements is compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer. The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R16 648 120 represents contributions payable to these plans by the municipality at rates specified in the rules of the plans.

Included in defined contribution plan information above, are the following plans which are a Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information are not available to enable the municipality to account for the plans as defined benefit plans, the municipality accounted for these plans as defined contribution plans:

**Cape Joint Pension Fund**

The Cape Joint Pension Fund's contribution rate payable is 9% by the members and 23.06% by Council. The valuation of 30 June 2012 showed that the funding level is 99.4% and the financial statements indicated that the shortfall will be recovered from local authorities. The shortfall was apportioned between local authorities and requests was issued to them for payment.

The pension fund is in a consultation process with the local authorities to restructure the fund from a defined benefit plan to a defined contribution plan. A provision was raised for the municipality's share of the conversion cost. Refer to note 16 for more detail on the provision raised.

**Cape Joint Retirement Fund**

The contribution rate paid by the members 9% and Council 18% is sufficient to fund the benefits accruing from the fund in future. The last valuation performed for the year ended 30 June 2012 revealed that the fund was certified to be in a sound financial position as at 30 June 2012.

**SALA Pension Fund:**

The contribution rate paid by the members 8.60% and Council 19.18% is sufficient to fund the benefits accruing from the fund in the future.

At the valuation date of 1 July 2012 the SALA Pension Fund was 100% (1 July 2009: 96%) funded and revealed that the fund was certified to be in a sound financial position.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

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**15. Employee benefit obligations (continued)**

The municipality is involved in a legal claim from SA Local Authorities Pension Fund to the value of R5 832 000 (2012: R5 832 915), resulting from a retrospective employer contribution rate increase. The claim was defended on grounds that the municipality is not liable and the matter is awaiting a trial date.

**Municipal Councillors Pension Fund:**

The actuarial valuator of the Pension Fund for councillors on 30 June 2009 stated that it is in a sound financial position.

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

**South African Municipal Workers Union Pension Fund**

The actuarial valuator of the Pension Fund for members on 30 June 2006 stated that it is in a sound financial position.

The contribution rate paid by the members (9,00%) and Council (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

**16. Provisions**

**Reconciliation of provisions - 2013**

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Cape Joint Pension fund	9,718,939	-	-	(3,688,595)	6,030,344
Clearing of alien vegetation	750,000	908,500	(171,000)	-	1,487,500
Provision relating to legal claims	-	1,964,000	-	-	1,964,000
Rehabilitation of landfill site	4,922,393	799,314	-	-	5,721,707
	<b>15,391,332</b>	<b>3,671,814</b>	<b>(171,000)</b>	<b>(3,688,595)</b>	<b>15,203,551</b>

**Reconciliation of provisions - 2012**

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Cape Joint Pension Fund	9,718,939	-	-	-	9,718,939
Clearing of alien vegetation	750,000	-	-	-	750,000
Provision relating to legal claims	1,394,549	-	(1,030,079)	(364,470)	-
Rehabilitation of landfill site	3,396,338	3,025,329	-	(1,499,274)	4,922,393
	<b>15,259,826</b>	<b>3,025,329</b>	<b>(1,030,079)</b>	<b>(1,863,744)</b>	<b>15,391,332</b>

Non-current liabilities	11,861,745	13,622,181
Current liabilities	3,341,806	1,769,151
	<b>15,203,551</b>	<b>15,391,332</b>

The provision relates to management's best estimate of the municipality's exposure to financial losses due to court cases instituted against it. The provision is expected to be utilised within the next year.

Prior year balances was restated for prior year error adjustments as per note 39.2.

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 16. Provisions (continued)

#### Cape Joint Pension Fund

The Cape Joint Pension Fund has started with the process of restructuring the fund from a defined benefit plan to a defined contribution plan. They have indicated that the municipality's portion of the restructuring cost will be R6 030 344 and that the municipality should budget for 5% contingency. The provision was reduced to R6 030 344 and a contingent liability is disclosed for the 5%. Refer to note 37.

#### Clearing of alien vegetation

The municipality has an obligation to clear alien vegetation. The provision represents the present cost to clear the alien vegetation. This was based on the current clearing cost of between R11 000 and R15 000 per hectare depending on the location (2012: R15 000 per hectare) and the total size of land of 119 hectares to be cleared. There is no definite commitment on expenditure for the clearing of backlog alien vegetation.

#### Provisions relating to legal claims consist of the following:

An amount of R1 964 000 was provided for the claim of James and 10 others. A number of individuals drowned after a bridge collapsed due to heavy rains. The possibility to defend the claim successfully is very slim and the final amount of the claim will be negotiated.

#### Rehabilitation of landfill site

The consulting engineers used a predominantly desktop-based methodology adopted in estimating the airspace consumed in the 2012/2013 financial year as a percentage of the total airspace, was based on assumption on waste generation, waste disposal site size and final design height (at closure).

Rehabilitation cost were estimated using criteria for closure detailed in the Minimum Requirement for Waste Disposal by Landfill, together with a visual inspection of the site during 2012. The rate of escalation was based on the Contract Price Adjustments for Civil Works. The 2012 cost were increased by 3,477% to determine the rehabilitation cost as at 30 June 2013.

George: Provision is made in terms of the municipality's licensing stipulations on the landfill waste sites, for the estimated cost of rehabilitating waste sites. The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a firm of consulting engineers have been applied and discounted to present value at the average borrowing cost of 10,5% (2012: 10,5%). The payment dates of total closure and rehabilitation have not been finalised, but are currently expected to be between 2013 and 2014.

Uniondale: The Uniondale waste site and the provision for the rehabilitation of the waste site was transferred from Eden District Municipality to George Municipality as part of the DMA transaction. The cost factors derived from the study by a firm of consulting engineers have been applied and discounted to present value at the average borrowing cost of 10,5% (2012: 10,5%). The payment dates of total closure and rehabilitation have not been finalised, but are currently expected to be during 2013.

The movement on each of the landfill site's provisions is:

	Opening balance	Additions	Total
George	3,752,862	591,039	4,343,901
Uniondale	1,169,531	208,275	1,377,806
	<b>4,922,393</b>	<b>799,314</b>	<b>5,721,707</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>17. Unspent conditional grants and receipts</b>		
<b>Unspent Grants</b>	<b>71,492,455</b>	<b>41,994,057</b>
National Government Grants	17,133,066	12,007,839
Provincial Government Grants	54,159,389	29,584,102
Other - DBSA	200,000	402,116
<b>Less: Unpaid Grants</b>	<b>(29,729,242)</b>	<b>(21,654,896)</b>
National Government Grants	(3,111,668)	(5,927,598)
Provincial Grants	(25,792,508)	(15,223,488)
Other Grants	(825,066)	(503,810)
	<b>41,763,213</b>	<b>20,339,161</b>

The amount of unspent conditional grants and receipts is held in the operating bank account of the municipality until utilised.

<b>Unconditional Grants</b>		
Equitable Share	80,370,000	72,201,000
<b>Conditional Grants</b>		
Grants and Donations	144,793,835	127,288,599
Subsidies	7,352,036	4,039,815
<b>Total Government Grants and Subsidies</b>	<b>232,515,871</b>	<b>203,529,414</b>
Government Grants and Subsidies - Capital	82,904,887	50,057,621
Government Grants and Subsidies - Operating	149,610,984	153,471,793
	<b>232,515,871</b>	<b>203,529,414</b>

The municipality does not expect any significant changes to the level of grants.

<b>Equitable share</b>		
Opening balance	-	-
Grants received	80,370,000	72,201,000
Conditions met - Operating	(80,370,000)	(72,201,000)
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>-</b>

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

<b>National: Finance Management Grant (FMG)</b>		
Opening balance	-	1,611,501
Grants received	1,250,000	1,250,000
Conditions met - Operating	(1,206,504)	(2,637,680)
Conditions met - Capital	-	(185,681)
VAT income on grants transferred to Other Income	(43,496)	(38,140)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>-</b>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**Figures in Rand**

**2013** **2012**

**17. Unspent conditional grants and receipts (continued)**

**National: Municipal Systems Improvement Grant (MSIG)**

Opening balance	-	437,008
Grants received	800,000	790,000
Transfers	-	-
Conditions met - Operating	(713,685)	(1,092,378)
VAT income on grants transferred to Other Income	(86,315)	(134,630)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>-</b>

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

**National: Infrastructure Skills Development**

Opening balance	-	-
Grants received	3,000,000	-
Conditions met - Operating	(1,402,410)	-
Conditions met - Capital	(1,106,473)	-
VAT income on grants transferred to Other Income	(230,374)	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>260,743</b>	<b>-</b>

The Infrastructure Skills Development Grant is given to strengthen the capacity of local government to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills available and to facilitate lifelong learning and the transfer of knowledge to municipalities.

**National: Flood Damage Grant**

Opening balance	(177,986)	336,606
Grants received	858,502	-
Conditions met - Operating	(4,255)	(514,592)
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>676,261</b>	<b>(177,986)</b>

The Flood Damage Grant was used for repairs and rectification of damages to houses that were incurred due to flood damages.

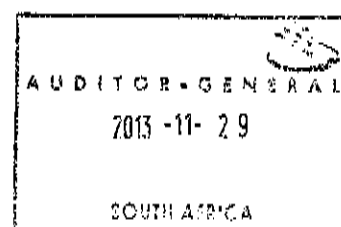
**National: Municipal Infrastructure Grant (MIG)**

Opening balance	(1,558,545)	1,236,558
Grants received	44,044,000	36,309,000
Conditions met - Operating	(2,202,200)	(1,670,000)
Conditions met - Capital	(35,297,467)	(32,837,353)
VAT income on grants transferred to Other Income	(4,985,788)	(4,596,750)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>(1,558,545)</b>

The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.

**National: Regional Bulk Infrastructure Grant (RBIG)**

Opening balance	11,390,364	6,071,676
Grants received	-	5,498,729
Conditions met - Operating	-	-
Conditions met - Capital	-	(163,539)
VAT income on grants transferred to Other Income	-	(16,502)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>11,390,364</b>	<b>11,390,364</b>



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**17. Unspent conditional grants and receipts (continued)**

The grant was allocated to the municipality to construct mulk infrastructure for water and waste water. The remainder of this grant is specifically for raising the dam wall of the Garden Route dam. An application was submitted to the Department of Water Affairs and the environmental impact study was completed. Work will proceed once the licence is issued by the Department of Water Affairs.

**National: Integrated National Electrification Grant**

Opening balance	(1,079,399)	223,749
Grants received	8,400,000	5,349,000
Transfer	-	(1,303,148)
Conditions met - Operating	-	-
Conditions met - Capital	(2,628,322)	(4,670,170)
VAT income on grants transferred to Other Income	(223,805)	(678,830)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>4,468,474</b>	<b>(1,079,399)</b>

The National Electrification Grant was used to upgrade the sub-station and electrification network.

**National: Electricity Demand Side Management Grant**

Opening balance	(3,111,668)	408,517
Grants received	-	-
Conditions met - Operating	-	(3,087,882)
Conditions met - Capital	-	-
VAT income on grants transferred to Other Income	-	(432,303)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>(3,111,668)</b>	<b>(3,111,668)</b>

The National Electrification Grant was used during the previous year to implement the Electricity Demand Side Management (EDSM) programme by providing capital subsidies to licensed distributors to address EDSM in residential dwellings, communities and commercial buildings in order to mitigate the risk of load shedding and supply interruptions.

**National: Expanded Public Works Program Grant (EPWP) Pointduty**

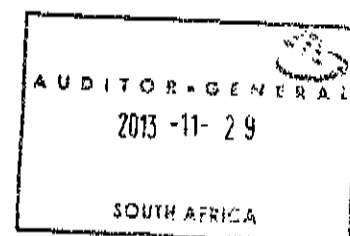
Opening balance	-	-
Grants received	216,905	-
Conditions met - Operating	(216,905)	-
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>-</b>

The Expanded Public Works Program Grant was used to increase labour employment through infrastructure programmes that increase jobs creation and skills development. This additional grant was given specifically to create 40 additional work opportunities.

**National: Expanded Public Works Program Grant (EPWP)**

Opening balance	617,474	-
Grants received	3,373,000	2,541,000
Conditions met - Operating	(2,793,599)	(923,516)
Conditions met - Capital	(920,526)	(868,606)
VAT income on grants transferred to Other Income	(276,349)	(131,404)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>617,474</b>

The Expanded Public Works Program Grant was used to increase labour employment through infrastructure programmes that increase jobs creation and skills development.



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**17. Unspent conditional grants and receipts (continued)**

**National: Lawaakamp Sports Grounds (Lotto)**

Opening balance	-	-
Grants received	1,000,000	-
Conditions met - Operating	-	-
Conditions met - Capital	(662,777)	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>337,223</b>	<b>-</b>

The National Lottery has given this grant to the municipality specifically for the upgrading of the Lawaakamp Sports Grounds.

**Provincial: Mobility Strategy Grant**

Opening balance	1,880,873	7,053,560
Grants received	-	2,000,000
Conditions met - Operating	-	-
Conditions met - Capital	(1,649,889)	(6,318,426)
VAT income on grants transferred to Other Income	(230,984)	(854,261)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>1,880,873</b>

The Mobility Strategy Grant was used for plans, facilities, roads and operational systems that will assist with the movement of people in the public transport system, including provision for persons with special needs.

**Provincial: Financial Management Support Grant**

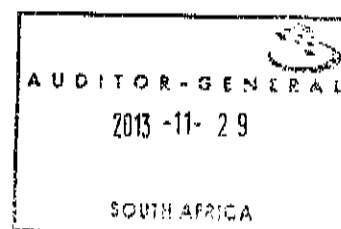
Opening balance	160,843	-
Grants received	200,000	200,000
Conditions met - Operating	(329,878)	(34,348)
Conditions met - Capital	-	-
VAT income on grants transferred to Other Income	(30,965)	(4,809)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>-</b>	<b>160,843</b>

The Financial Management Support Grant is given by the Western Cape Provincial Treasury to provide financial assistance to municipalities to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving of municipal audit outcomes and addressing institutional challenges.

**Provincial: Integrated Public Transport Network**

Opening balance	16,247,671	-
Grants received	11,500,000	16,000,000
Interest received	832,636	247,671
Conditions met - Operating	(919,508)	-
Conditions met - Capital	(8,467,927)	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>19,192,872</b>	<b>16,247,671</b>

The Integrated Public Transport Network programme is there to assist municipalities in upgrading and transformation of the road-based public transport sector.



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**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>17. Unspent conditional grants and receipts (continued)</b>		
<b>Provincial: Housing Grants</b>		
Opening balance	(4,375,234)	(13,310,591)
Grants received	68,889,449	73,390,618
Transfers	(3,400)	6,287,037
Conditions met - Operating	(39,216,737)	(65,875,298)
Conditions met - Capital	(29,942,566)	(4,867,000)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>(4,648,488)</b>	<b>(4,375,234)</b>

The Housing grants were utilised for the development of erven, erection of top structures and basic sanitation services.

<b>Provincial: N2/York Bridge</b>		
Opening balance	-	-
Grants received	17,600,000	-
Conditions met - Operating	(3,216,110)	-
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>14,383,890</b>	<b>-</b>

This grant will be used to widen the N2/ York Street bridge and to add a pedestrian crossing to the bridge.

<b>Provincial: Proclaimed Roads</b>		
Opening balance	-	-
Grants received	5,814,800	-
Conditions met - Operating	(6,995,809)	-
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>(1,181,009)</b>	<b>-</b>

This grant is given by Provincial Treasury for the maintenance of provincial roads.

<b>Provincial: Thembaletu &amp; Pacaltsdorp sport fields (YDVS)</b>		
Opening balance	-	-
Grants received	449,465	-
Conditions met - Operating	-	-
Conditions met - Capital	(2,078,577)	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>(1,629,112)</b>	<b>-</b>

This grant will be used to upgrade the Thembaletu and Pacaltsdorp sport fields.

<b>Provincial: Harlem Public Transport Infrastructure</b>		
Opening balance	-	-
Grants received	2,000,000	-
Conditions met - Operating	(120,400)	-
Conditions met - Capital	-	-
VAT income on grants transferred to Other Income	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>1,879,600</b>	<b>-</b>

This grant was given to the municipality by Provincial Treasury for the construction of pedestrian walkways along Berg Street in Harlem.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

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**17. Unspent conditional grants and receipts (continued)**

**Provincial: Other Provincial Grants**

Opening balance	446,459	662,820
Grants received	2,030,800	1,680,416
Conditions met - Operating	(1,888,493)	(1,717,857)
Conditions met - Capital	(150,363)	(146,847)
VAT income on grants transferred to Other Income	(69,277)	(32,073)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>369,126</b>	<b>446,459</b>

Various grants are received from Provincial Government for sanitation, libraries, transport, disaster relief etc; with the main grants being: Community Development Workers, Library services and Local Government Master Planning.

**District: Eden District Municipality Grants**

Opening balance	402,116	202,116
Grants received	-	-
Transfers	-	200,000
Conditions met - Operating	(202,116)	-
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>200,000</b>	<b>402,116</b>

The Eden District Municipality grants comprise amounts received and to be utilised for the refuse transfer station and storm water master planning.

**Other Grants**

Opening balance	(503,810)	197,063
Grants received	7,911,701	3,574,135
Transfers	(420,579)	(557,765)
Conditions met - Operating	(7,812,375)	(3,717,243)
Conditions met - Capital	-	-
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>(825,063)</b>	<b>(503,810)</b>

Other grants consist of the SANRAL N2 York Bridge grant, amounts received from the Department of Water Affairs and LG Seta.

**Total Grants**

Opening balance	20,339,159	5,130,584
Grants received	259,708,621	220,783,898
Transfers	(423,979)	4,626,124
Interest received	832,636	247,671
Conditions met - Operating	(149,610,984)	(153,471,794)
Conditions met - Capital	(82,904,887)	(50,057,622)
VAT income on grants transferred to Other Income	(6,177,353)	(6,919,702)
<b>Conditions still to be met/(Grant expenditure to be recovered)</b>	<b>41,763,213</b>	<b>20,339,159</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>18. Housing development fund</b>		
Unappropriated surplus	23,946,875	20,627,951
Loans extinguished by Government on 1 April 1998	53,383,243	53,383,243
	<b>77,330,118</b>	<b>74,011,194</b>
<b>The housing development fund is represented by the following assets and liabilities</b>		
Housing selling scheme loans	1,694,412	2,477,179
Inventory	279,127	339,041
Trade and other receivables from exchange transactions	1,221,666	1,291,305
Other receivables from non-exchange transactions (non-cash)	2,819,204	4,187,273
Short term investments	71,315,709	65,716,396
<b>Total Housing Development Fund Assets and Liabilities</b>	<b>77,330,118</b>	<b>74,011,194</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>19. Property rates</b>		
<b>Rates received</b>		
Commercial	33,054,011	34,669,817
Housing Schemes	39,110	42,019
Industrial	9,676,631	7,524,484
Other (Flat rate)	53,597	53,072
Residential	137,052,468	120,978,145
State (Domestic)	364,317	255,351
State (Erven and schools - business tariff)	5,970,240	6,313,106
Less: Impermissible rates	(5,241,707)	(5,940,404)
Less: Income forgone	(37,530,219)	(32,435,828)
Less: Equitable share utilised	-	(3,671,346)
	<b>143,438,448</b>	<b>127,788,416</b>
<b>Valuations</b>		
Commercial	5,489,787,700	6,735,044,427
Industrial	1,607,146,800	1,457,624,320
Municipal (non-taxable valuations)	1,194,078,000	1,440,138,453
Residential	27,317,405,200	26,799,157,870
State (Domestic)	72,660,000	42,280,000
State (Erven and schools)	991,569,600	1,191,965,471
	<b>36,672,647,300</b>	<b>37,666,210,541</b>

Assessment rates are levied on the total value of property, which valuation must be performed every four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations, consolidations and subdivisions.

Uniform rates of 0,5014 (2012: 0,4622) cent in the Rand on total valuations were applied to determine assessment rates. Business tariffs are levied at 0,6021 (2012: 0,5136) for Commercial, Industrial, State Erven and Schools, and this were applicable for all Areas.

A rebate of 20% (2012: 20%) was allowed on residential properties, excluding residential properties in the rural areas, whilst rebates of 10% - 40% (2012: 10% - 40%) were applied to pensioners, based on the annual income of the ratepayer. A rebate of 75% (2012: 80%) was allowed on residential properties for rural areas. A discount of 20% was granted to the State.

Rates are levied annually on property owners and are payable by 30 September. Owners are allowed to pay the annual assessment in 12 monthly installments, which are payable on the 15th of each month. Interest is levied at the prime rate plus 1% on outstanding rates amounts.

The current General Valuation came into effect on 1 July 2012.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>20. Government grants and subsidies</b>		
Equitable share	80,370,000	72,201,000
National: Finance Management Grant (FMG)	1,206,504	2,823,361
National: Municipal Systems Improvements Grant (MSIG)	713,685	1,092,378
National: Flood Damage Grant	4,255	514,592
National: Infrastructure Skills Development	2,508,883	-
National: Municipal Infrastructure Grant (MIG)	37,499,667	34,507,353
National: Regional Bulk Infrastructure Grant (RBIG)	-	163,539
National: Integrated National Electrification Grant	2,628,322	4,670,170
National: Electricity Demand Side Management Grant	-	3,087,882
National: Expanded Public Works Program Grant (EPWP)	3,714,125	1,792,122
National: Expanded Public Works Program Grant (EPWP) Pointduty	216,905	-
Provincial: Mobility Strategy Grant	1,649,889	6,318,425
Provincial: Financial Management Support Grant	329,878	34,348
Provincial: Housing Grants	69,159,303	70,742,298
Provincial: Other provincial grants	2,038,856	1,864,703
Provincial: Harlem Public Transport Infrastructure	120,400	-
Provincial: Integrated Public Transport Network	9,387,435	-
Provincial: N2/York Bridge	3,216,110	-
Provincial: Proclaimed Roads	6,995,809	-
Provincial: Thembaletu & Pacaltsdorp sport fields (YDVS)	2,078,557	-
National: Lowaalkamp Sports Grounds (Lotto)	662,777	-
District: Eden District Municipality Grants	202,116	-
Other grants	7,812,394	3,717,243
	<b>232,515,870</b>	<b>203,529,414</b>

Revenue recognised per vote as required by Section 123 (c) of the MFMA:

Office of the Municipal Manager	368,073	560,329
Corporate Services	2,429,174	1,413,272
Community Services	32,980,488	27,844,755
Human Settlements, Land Affairs & Planning	39,941,927	67,543,132
Civil Engineering Services	113,263,512	85,142,567
Electrotechnical Services	13,525,111	7,758,052
Financial Services	30,007,585	13,267,307
	<b>232,515,870</b>	<b>203,529,414</b>

**21. Service charges**

Fire Station - Sale of Water	346,937	331,094
Refuse removal	37,420,439	35,101,413
Sale of electricity	413,335,570	373,785,442
Sale of water	81,477,134	66,392,721
Sewerage and sanitation charges	54,624,960	52,175,772
	<b>587,205,040</b>	<b>527,786,442</b>

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to the approved tariff.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
<b>22. Other Income</b>		
Application fees for second dwelling	-	68,148
Building plan fees and related income	2,132,768	2,223,586
Contributions received for capital projects	5,861,905	5,226,742
Sundry income	8,924,724	8,096,497
Sale of erven	2,190,146	6,473,752
VAT income from grants	6,177,353	6,919,703
	<b>25,286,896</b>	<b>29,008,428</b>

The amounts disclosed above for Other Income are in respect of services rendered, other than described in notes 19 - 21 which are billed to or paid for by the users of the services are required according to approved tariffs.

**23. Investment revenue**

**Interest revenue**

**Interest income on loans and receivables**

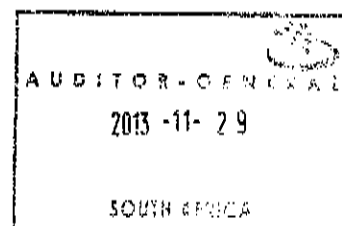
Art 185(a) arrangements	70,219	84,874
Land sales	10,725	11,071
Outstanding trade receivables	3,320,744	3,111,893
Selling schemes	236,347	358,004
Victoria Bay loans	5,961	7,385

**External investments**

Interest income on bank deposits	9,113,458	10,971,597
Interest income on short term investments	4,667,146	3,743,304
	<b>17,424,600</b>	<b>18,288,128</b>

**24. Personnel costs**

Basic	169,716,188	152,457,889
Housing benefits and allowances	1,254,765	1,327,516
Long-service awards	1,141,615	1,382,942
Medical aid - company contributions	10,538,547	9,839,663
Other payroll levies	3,345,879	3,228,115
Overtime payments	18,143,491	16,665,946
Employee benefit obligations	16,648,120	18,918,567
- Current service cost	4,967,471	3,931,323
- Interest cost	8,493,797	8,078,187
- Actuarial losses recognised	3,186,852	6,909,057
Travel, motor car, accommodation, subsistence and other allowances	16,030,355	13,390,847
UIF	1,425,806	1,325,390
Pension	24,207,120	22,384,543
WCA	2,470,899	1,647,806
Acting allowances	224,776	1,446,156
SDL	2,291,988	1,904,914
Ad hoc trips	809,644	841,222
Subsistence and Travelling Allowance	876,916	766,085
Termination benefits	-	1,355,194
	<b>269,126,109</b>	<b>248,882,795</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>24. Personnel costs (continued)</b>		
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	1,449,769	570,000
Performance Bonus	79,800	69,825
Contributions to UIF, Medical and Pension Funds	5,336	749
Acting expenses	3,070	572,400
	<b>1,537,975</b>	<b>1,212,974</b>
<b>Remuneration of Director Financial Services / Acting Director Financial Services</b>		
Annual Remuneration	886,591	68,742
Car Allowance	40,000	-
Performance Bonus	-	55,580
Ex Gratia Payment	57,593	-
Contributions to UIF, Medical and Pension Funds	145,122	8,558
Acting expenses	25,044	464,464
	<b>1,154,350</b>	<b>597,344</b>
<b>Remuneration of Director Corporate Services</b>		
Annual Remuneration	935,198	-
Car Allowance	37,035	-
Ex Gratia payment	48,619	-
Contributions to UIF, Medical and Pension Funds	47,222	-
Acting expense	-	93,818
	<b>1,068,074</b>	<b>93,818</b>
<b>Remuneration of Director Human Settlement, Land Affairs &amp; Planning</b>		
Annual Remuneration	879,012	627,732
Car Allowance	96,000	96,000
Performance Bonus	123,420	99,725
Contributions to UIF, Medical and Pension Funds	213,946	159,336
Acting expenses	6,822	2,765
	<b>1,319,200</b>	<b>985,558</b>
<b>Remuneration of Director Community Services / Acting Director Community Services</b>		
Annual Remuneration	849,638	596,546
Car Allowance	139,200	139,200
Performance Bonus	123,420	99,725
Contributions to UIF, Medical and Pension Funds	200,120	147,322
Ex Gratia payment	111,369	-
Acting expenses	163,629	282,016
	<b>1,587,376</b>	<b>1,264,809</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**24. Personnel costs (continued)**

**Remuneration of Director Civil Engineering Services**

Annual Remuneration	1,037,903	620,245
Car Allowance	132,000	132,000
Performance Bonuses	124,996	111,496
Contributions to UIF, Medical and Pension Funds	19,182	142,079
Acting expenses	-	24,907
	<b>1,314,081</b>	<b>1,030,727</b>

**Remuneration of Director Electro- Technical Services**

Annual Remuneration	945,514	562,759
Car Allowance	144,000	144,000
Performance Bonuses	117,842	97,029
Contributions to UIF, Medical and Pension Funds	81,653	136,466
Acting expenses	26,211	5,786
	<b>1,315,220</b>	<b>946,040</b>

**25. Remuneration of councillors**

Executive Mayor	413,807	394,583
Deputy Executive Mayor	349,715	331,483
Speaker	402,172	381,206
Chief Whip	327,858	204,353
Mayoral Committee Members	3,030,893	3,038,757
Councillors	5,009,998	4,807,800
Councillors' pension contribution	763,530	685,027
Travelling expenses	3,393,208	3,232,381
Cellphone expenses	715,644	684,437
Councillors' contribution to medical aid	160,703	108,460
	<b>14,567,528</b>	<b>13,868,487</b>

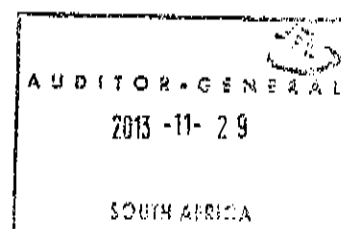
Remuneration for the Executive Mayor, Deputy Executive Mayor, Speaker and Chief Whip are:

**Executive Mayor**

Annual remuneration	413,807	394,583
Car allowance	167,572	158,836
Cellphone allowance	39,828	37,752
Contributions to medical aid and pension funds	88,908	81,924
	<b>710,115</b>	<b>673,095</b>

**Deputy Executive Mayor**

Annual remuneration	349,715	331,483
Car allowance	134,057	127,068
Cellphone allowance	19,872	18,840
Contributions to medical aid and pension funds	52,457	49,722
	<b>556,101</b>	<b>527,113</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**25. Remuneration of councillors (continued)**

**Speaker**

Annual remuneration	402,172	381,206
Car allowance	134,057	127,068
Cellphone allowance	19,872	18,840
	<u>556,101</u>	<u>527,114</u>

**Chief Whip**

Annual remuneration	327,858	204,353
Car allowance	125,679	95,713
Cellphone allowance	19,872	16,517
Contributions to medical aid and pension funds	49,179	37,326
	<u>522,588</u>	<u>353,909</u>

**In-kind benefits**

The Councillors occupying the positions of Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Executive Mayor Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

The Executive Mayor and Deputy Executive Mayor have use of a Council owned vehicle for official duties.

**26. Depreciation and amortisation**

Property, plant and equipment	105,394,424	104,786,182
Intangible assets	597,541	568,527
Investment property	161,573	4,813
	<u>106,153,538</u>	<u>105,359,522</u>

**27. Impairment losses**

Impairment of trade receivables from exchange and non-exchange transactions	37,853,923	20,846,264
Impairment of loans and receivables	(812,185)	(1,288,375)
	<u>37,041,738</u>	<u>19,557,889</u>

**28. Finance costs**

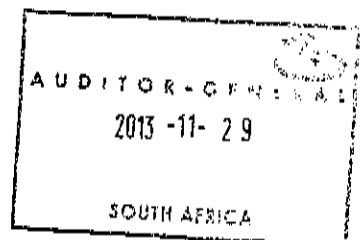
Loans and borrowings	54,651,215	56,860,483
Provision for rehabilitation of landfill site	799,314	356,524
	<u>55,450,529</u>	<u>57,217,007</u>

The weighted average capitalisation rate on funds borrowed generally is 11.01% per annum (2012: 11.01%).

**29. Bulk purchases**

Electricity	276,691,264	244,403,075
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Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom. No water is purchased.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>30. Contracted services</b>		
Cemeteries	676,064	748,760
Dumping Site Contractors	4,461,910	4,323,909
Electricity Distribution	14,002,022	11,979,120
Financial Services Contractors	44,686	65,805
Fire Services	493,421	-
Housing projects	39,682,867	66,515,827
Integrated Transport Services	919,508	-
Internal Auditors	2,829,951	2,672,822
Other Contractors	1,536,095	1,267,124
Parks and Garden Contractors	2,882,658	2,740,696
Proclaimed Roads	16,610,185	218,395
Refuse removal	2,119,455	2,918,362
Street Cleansing Contractors	666,172	425,275
Streets and Stormwater	1,518,490	172,436
Town Planning Contractors	322,356	840,740
Traffic Contractors	4,301,618	4,973,160
Water Distribution	628,207	385,825
	<b>93,695,665</b>	<b>100,248,256</b>

The grouping of contracted services has been revised to give more detail of services rendered to the municipality.

**31. Grants and subsidies paid**

<b>Other subsidies</b>		
Bursary Grants	103,680	138,318
Festivals	149,828	-
Merit Grants and Donations	108,350	32,000
SPCA - Small Animal Pound	1,158,219	1,018,056
	<b>1,520,077</b>	<b>1,188,374</b>

The Bursary grants are in respect of providing bursaries for further tertiary education.

Donations was given to festivals help by the local community and was considered upon application by the organisers.

Merit Grants and Donations are given to schools and non-profit organisations in the community.

SPCA Grant is available on application after consulting with the Municipal Manager on the merit of such an application.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>32. General expenses</b>		
Advertising	918,102	959,792
Auditors remuneration (External)	3,519,715	3,906,646
Bank charges	1,486,989	1,130,629
Chemicals and Cleaning Materials	10,115,444	9,768,387
Clearing of alien vegetation	908,500	-
Consulting and professional fees	199,846	172,724
Easy Pay Cost	979,121	999,745
Energy Costs	6,640,527	5,835,474
Flood Damage	4,255	514,592
General and additional valuations	1,898,693	3,588,530
IT Expenses	226,753	235,536
Insurance	1,693,455	1,939,301
Lease rentals on operating lease	1,743,126	1,821,895
Legal fees	3,359,198	1,406,380
Loss with theft	68,662	-
Membership fees	2,317,256	1,690,142
Motor vehicle expenses	982,133	708,940
Net Realisable Value written-down for inventory (Note 2)	157,685	47,697
Occupational safety	337,391	302,392
Other general expenses	8,994,089	14,674,685
Planning cost	1,632,962	1,564,780
Postage	1,728,113	1,825,237
Printing and stationery	1,646,279	1,733,647
Project costs	10,279,571	7,758,493
Provision for legal dispute	1,964,000	-
Refuse	8,481,854	7,949,198
Security	4,582,535	4,209,468
Telephone and fax	1,320,528	1,571,355
Training	343,314	176,888
Travel - local	602,925	454,816
Uniforms	947,659	1,010,017
	<b>80,080,680</b>	<b>77,957,386</b>

The grouping of general expenses has been revised to give more detail of services rendered to the municipality.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>33. Cash generated from operations</b>		
Surplus (deficit)	31,108,899	(5,019,240)
<b>Adjustments for:</b>		
Depreciation and amortisation	106,153,538	105,359,522
Loss / (Gain) on sale of non-current assets and disposal groups	(18,477)	11,285,936
Donated asset receipt included in other income	(749,384)	-
Non-cash items from DMA transaction	-	(73,199)
Fair value adjustments of inventory	157,685	47,697
Finance costs	55,450,529	57,217,007
Interest income	(14,103,860)	(15,176,235)
Bad debts written off	-	(22,837,387)
Movements in operating lease assets due to straightlining	(1,098)	(1,978)
Movement in bonus provision	441,621	507,472
Movements in provisions	(16,781)	2,660,859
Provisions utilised during the year	(171,000)	(1,030,079)
Impairment losses	37,041,738	19,557,889
Movement in Employee benefit assets and liabilities - Medical Aid, Pension and Long Service Awards	16,648,120	16,964,539
Movement in Employee benefit assets and liabilities - Staff leave	3,400,481	3,539,716
Movement in Employee benefit assets and liabilities - Performance bonuses	(650,950)	54,032
Benefits paid regarding employee benefits	(5,649,840)	(4,762,106)
Unspent conditional grants received	259,708,618	220,783,898
Payments from unspent conditional grants	(232,516,068)	(203,529,416)
Non cash movements on unspent conditional grants	(5,768,501)	(4,626,124)
<b>Changes in working capital:</b>		
Inventories	1,224,488	(1,576,889)
Trade receivables from exchange and non-exchange transactions	(23,735,067)	(9,048,250)
Other receivables from non-exchange transactions	1,341,182	(3,442,434)
Consumer deposits	1,764,325	1,035,891
Trade and other payables from exchange transactions	14,426,093	(856,882)
VAT	(4,128,996)	1,543,167
	<b>241,357,295</b>	<b>168,577,406</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>34. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for:</b>		
• Infrastructure	47,190,051	57,485,000
• Community	1,800,175	-
• Other	1,500,000	1,500,000
	<b>50,490,226</b>	<b>58,985,000</b>
<b>These expenses will be financed from:</b>		
• Capital replacement reserve	2,000,000	10,500,000
• Government grants	48,490,226	48,485,000
	<b>50,490,226</b>	<b>58,985,000</b>
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	511,671	364,117
- in second to fifth year inclusive	476,076	252,771
	<b>987,747</b>	<b>616,888</b>
<b>The total operating lease liability (refer to note 13)</b>	<b>4,539</b>	<b>5,628</b>

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

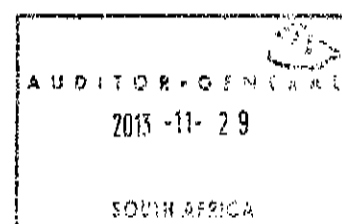
Figures in Rand	2013	2012
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**35. Financial assets by category**

The accounting policies for financial instruments have been applied to the line items below:

**2013**

	Amortised Cost	Total
<b>Long-term Receivables</b>		
Housing Scheme Loans	645,901	645,901
Sale of Erven Loans	148,601	148,601
Loans to Other Organisations	240,142	240,142
Actaris Meter Debt	128,993	128,993
<b>Trade receivables from exchange transactions</b>		
Service Debtors	43,864,070	43,864,070
Housing Rentals	25,933	25,933
Housing Loan Installments	64,875	64,875
Other Debtors	5,584,813	5,584,813
<b>Trade receivables from non-exchange transactions</b>		
Rates	23,639,828	23,639,828
<b>Other receivables</b>		
Sundry and other receivables	40,698,908	40,698,908
<b>Current Portion of Long-term Receivables</b>		
Housing Scheme Loans	121,730	121,730
Sale of Erven Loans	10,781	10,781
Loans to Other Organisations	116,655	116,655
Actaris Meter Debt	55,283	55,283
<b>Bank Balances and Cash</b>		
Cash on Hand	19,150	19,150
Bank Balance	266,857,976	266,857,976
	<b>382,223,639</b>	<b>382,223,639</b>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>35. Financial assets by category (continued)</b>		
<b>2012</b>		
	<b>Amortised Cost</b>	<b>Total</b>
<b>Long-term Receivables</b>		
Housing Scheme Loans	560,221	560,221
Sale of Erven Loans	143,829	143,829
Loan to Other Organisations	356,797	356,797
Actaris Meter Debt	36,812	36,812
<b>Trade receivables from exchange transactions</b>		
Service Debtors	64,516,723	64,516,723
Housing Rentals	234,652	234,652
Housing Loan Installments	711,438	711,438
Other Debtors	4,949,438	4,949,438
<b>Trade receivables from non-exchange transactions</b>		
Rates	16,886,123	16,886,123
<b>Other receivables</b>		
Sundry and other receivables	33,959,591	33,959,591
<b>Current Portion of Long-term Receivables</b>		
Housing Scheme Loans	147,992	147,992
Sale of Erven Loans	12,098	12,098
Loans to Other Organisations	99,433	99,433
Actaris Meter Debt	73,123	73,123
<b>Bank Balances and Cash</b>		
Cash on Hand	20,650	20,650
Bank Balance	218,880,367	218,880,367
	<b>341,589,287</b>	<b>341,589,287</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**36. Financial liabilities by category**

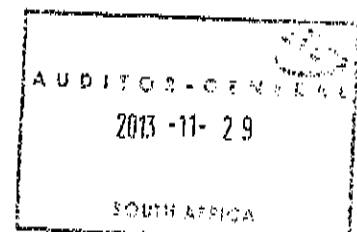
The accounting policies for financial instruments have been applied to the line items below:

**2013**

	Financial liabilities at amortised cost	Total
<b>Long-term liabilities</b>		
Annuity loans	448,465,183	448,465,183
Other loans	1,605,272	1,605,272
<b>Consumer Deposits</b>		
Electricity and Water	17,697,494	17,697,494
<b>Payables</b>		
Trade payables	92,648,908	92,648,908
<b>Current portion of long-term liabilities</b>		
Annuity loans	35,990,263	35,990,263
Other loans	972,847	972,847
	<u>597,379,967</u>	<u>597,379,967</u>

**2012**

	Financial liabilities at amortised cost	Total
<b>Long-term liabilities</b>		
Annuity loans	484,455,446	484,455,446
Other loans	2,578,119	2,578,119
<b>Consumer Deposits</b>		
Electricity and Water	15,933,169	15,933,169
<b>Payables</b>		
Trade Payables	80,302,987	80,302,987
<b>Current portion of long-term liabilities</b>		
Annuity loans	32,647,078	32,647,078
Other loans	1,196,354	1,196,354
	<u>617,113,153</u>	<u>617,113,153</u>



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>37. Contingent liabilities</b>		
<b>Breach of contract</b>		
Panasonic Business Systems Southern Cape	85,551	85,551
<b>Compensation for damages</b>		
James & 10 others	-	1,748,000
MTO Forestry	-	1,021,000
Golden Rewards 1357CC	294,274	294,274
Lagoon Beach Development (third party claim)	8,700,000	8,700,000
SA Local Authorities Pension Fund	15,604,379	5,832,000
JE & JA Maree	108,000	108,000
PA Gerber	600,000	-
MP Adendorf	5,000,000	-
MC Chimes	61,272	-
	<b>30,453,476</b>	<b>17,788,825</b>

James & 10 others: A number of individuals drowned after a bridge collapsed due to heavy rains. Individual claims amounts to R1,964,000. The possible settlement of the claim is considered as the possibility to defend the claim successfully is very slim. A provision for this amount was raised. Refer to note 16.

MTO Forestry: MTO issued a summons against the Municipality for damages to their plantations caused by a run-away fire. The matter was settled and an amount of R1,200,000 plus cost of R300,000 was paid during the year.

Golden Rewards 1357CC: Tender OS11/2010 was awarded to Golden Rewards 1357CC (the Contractor) for the erection of an ablution facility in Lawaakamp, George. The Contractor constructed the building according to plans provided to him by the Municipality. The Contractor subsequently claimed an amount of R294,274 from the Municipality. The basis of his claim is that the Municipality indicated the wrong sizes of the building on the building plans, which resulted in losses of R294,274. The Municipality did not agree with the allegation of the Contractor, neither with his claim and referred the matter to arbitration in terms of the General Conditions of Contract. The arbitration proceedings have not been concluded.

Lagoon Beach Development: They lodged a third party claim against the Municipality. The matter is being defended.

SA Local Authorities Pension Fund: The municipality is involved in a legal claim from SA Local Authorities Pension Fund to the value of R15 604 379, resulting from a retrospective employer contribution rate increase and interest on the outstanding amount. The claim is currently being defended and if unresolved could lead to a Constitutional Court hearing.

JE & JA Maree: The municipality is involved in a legal claim of R108 000 from JE & JA Maree. The claim is for the repayment municipal rates, taxes and costs pursuant to expropriation of portion 29 of the farm 197, Sandkraal. The matter is currently being disputed by the municipality.

PA Gerber: He is claiming R600,000 compensation for the expropriation of section 44 (a part of 8) of the farm Buffelsfontein no 204 George.

MP Adendorf: This is a claim for damages by MP Adendorf against a contractor of the municipality, Lantern Developments. The contractor is under liquidation and has been substituted in the action by Zurich Insurance. The Municipality and Eskom have been added as third parties to contribute to any award according to their percentage of negligence. The matter has been set down for the end of July 2013.

MC Chimes: This claim is for damages in the amount of R61,272 against the municipality. The plaintiff has been sequestrated and it is therefore uncertain if this matter will proceed.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

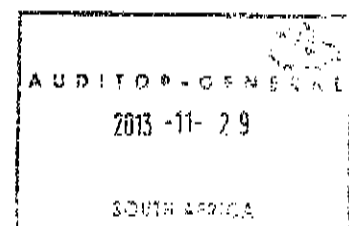
**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**37. Contingent liabilities (continued)**

Wage Curve Settlement Negotiations: The Trade Union, IMATU, and the Employers Organisation, SALGA, is involved in wage curve settlement negotiations relating to the wage curve dispute relating to salary increases of 2010. IMATU is willing to accept a fourteenth cheque for all its members but SALGA did not agree to this due to the significant cost implications thereof. The matter is being referred to the Labour Appeal Court.

Cape Joint Pension Fund: The pensioned fund issued a summons against the Municipality for their portion of the shortfall in the fund. The pension fund has developed a proposal for defined benefit members to transfer to the defined contribution section of the fund on favourable terms. The pension fund has indicated that the restructuring will proceed. Based on current information available, the estimated conversion cost to the defined contribution plan will be R6,030,344 and a provision was raised for this amount. Refer to note 16. The pension fund however indicated that local authorities should budget for 5% of the claim amount for contingencies.





**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

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**38. Related parties**

**Relationships**

**Councillor**

- Ward 1	BA Fortuin (Resigned 31 May 2013)
- Ward 2	C Neethling
- Ward 3	EP de Villiers
- Ward 4	LD van Wyk
- Ward 5	LBC Esau
- Ward 6	JJ Muller (Deceased 27 March 2013)
	HH Ingo (Appointed 22 May 2013)
- Ward 7	FZ Ntozini
- Ward 8	C Standers
- Ward 9	T Teyisi
- Ward 10	MD Gingcana
- Ward 11	NF Kamfe
- Ward 12	GN Sixolo
- Ward 13	B Salmani
- Ward 14	CM Papah (Resigned 26 April 2013)
- Ward 15	FS Guga
- Ward 16	HJ Jones
- Ward 17	D Maritz
- Ward 18	GC Niehaus
- Ward 19	IC Kritzinger
- Ward 20	M Draghoender
- Ward 21	JS Thanda
- Ward 22	PH de Swardt
- Ward 23	GJ Stander
- Ward 24	AM Wildeman
- Ward 25	MEF Kleynhans

Proportional	SJ Bezuidenhout
Proportional	C Bob
Proportional	TJ Botha (Deceased 27 March 2013)
Proportional	BM Cornelius
Proportional	NNE Dlephu
Proportional	J du Toit
Proportional	T Fortuin
Proportional	V Gericke
Proportional	F Harris
Proportional	WT Harris
Proportional	LS Hayward
Proportional	NV Kom
Proportional	PB Komani
Proportional	PS Leholo
Proportional	G Macclune
Proportional	SM Mekana
Proportional	B Petrus
Proportional	LN Qupe
Proportional	GMV Sihoyiya
Proportional	I Sternela
Proportional	PJ van der Hoven
Proportional	AJ van Zyl
Proportional	M Viljoen (Appointed 5 April 2013)
Proportional	CT Williams
Proportional	W Wilbooi

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**38. Related parties (continued)**

Directors	
Directorate Financial Services	K Jordaan
Directorate Civil Engineering Services	HL Basson
Directorate Corporate & Social Services	EM Rankwana
Directorate Community Services	A Smith
Directorate Human Settlement, Land Affairs & Planning	SB Erasmus
Directorate Electrotechnical Services	KD Grünewald

Municipal Manager T Botha

**Related party transactions**

**Related party transactions for the year ended 30 June 2013**

		Rates	Services	Total	Outstanding balance
<b>Municipal manager &amp; Councillors</b>					
Executive Mayor	C Standers	2,131	4,403	6,535	(242)
Deputy Mayor	D Maritz	-	4,156	4,156	(104)
Ex-Co Memb: Corporate & HR	I Stemela	4,896	3,602	8,498	(576)
Ex-Co Memb: Electrotechnical Services	WT Harris	576	5,327	5,904	(49)
Ex-Co Memb: Financial Services	LD Van Wyk	6,440	5,194	11,635	(481)
Ex-Co Memb: Community Safety	IC Kritzing	2,939	4,207	7,146	(1,115)
Ex-Co Memb: Planning	GJ Stander	10,389	5,147	15,536	1,249
Chief Whip	PH de Swardt	8,837	3,297	12,134	(651)
Councillor: Ward 3	EP De Villiers	5,556	5,627	11,182	893
Councillor: Ward 4	LBC Esau	3,177	5,374	8,551	(49)
Councillor: Ward 11	NF Kamte	-	5,380	5,380	(99)
Councillor: Ward 12	GN Sixolo	477	3,489	3,966	(101)
Councillor: Ward 15	FS Guga	-	5,027	5,027	(210)
Councillor: Ward 18	GC Niehaus	9,745	41,923	51,668	4,621
Councillor: Ward 21	JS Thanda	-	2,919	2,919	(85)
Councillor: Ward 24	AM Wildeman	-	4,480	4,480	(199)
Councillor: PR	BM Cornelius	1,048	3,689	4,737	(312)
Councillor: PR	CT Williams	663	3,489	4,151	(488)
Councillor: PR	NV Kom	-	3,658	3,658	(397)
Councillor: PR	T Fortuin	503	4,253	4,756	(40)
Councillor: PR	PS Lehlo	-	2,919	2,919	(243)
Councillor: PR	SJ Bezuidenhout	6,843	4,411	11,255	(699)
Councillor: PR	F Harris	-	3,703	3,703	(85)
Councillor: PR	PJ van der Hoven	4,872	7,379	12,252	918
Councillor: PR	AJ Van Zyl	8,799	4,332	13,131	1,101
Councillor: PR	PB Komani	425	3,525	3,950	(50)
Councillor: PR	C Bob	1,186	5,081	6,267	78
Councillor: PR	G Macclune	-	1,671	1,671	(150)
Councillor: PR	B Petrus	469	4,216	4,685	(312)
Councillor: PR	GM Sihoyiya	-	4,523	4,523	(130)
Councillor: PR	SM Mekana	-	3,661	3,661	(326)
Councillor: PR	LS Hayward	8,604	5,150	13,754	(403)

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**36. Related parties (continued)**

**Section 56 and 57**

**Personnel**

Municipal Manager	T Botha	-	785	785	(40)
Director Electrotechnical Services	KD Grünwald	7,795	4,482	12,276	402
Director Civil Engineering Services	HL Basson	8,610	10,392	19,002	-
Director Human Settlement, Land Affairs & Planning	SB Erasmus	-	1,541	1,541	-
Director Environmental Affairs	A Smith	5,822	4,255	10,077	(67)
		<b>110,802</b>	<b>196,667</b>	<b>307,471</b>	<b>1,559</b>

None of the above mentioned accounts were outstanding for more than 90 days.

**Related party transactions for the year ended 30 June 2012**

		Rates	Services	Total	Outstanding balance
<b>Municipal manager &amp; Councillors</b>					
Executive mayor	C Standers	758	4,410	5,168	(669)
Deputy executive mayor	D Maritz	-	3,678	3,678	(241)
Speaker	M Draghoender	906	3,773	4,679	27
Ex-Co Memb.: Electrotechnical Services	WT Harris	351	4,821	5,172	(103)
Ex-Co Memb.: Corporate & HR	I Stemela	37	3,308	3,345	(436)
Ex-Co Memb.: Civil Engineering	JJ Muller	-	369	369	(429)
Ex-Co Memb.: Financial Services	LD van Wyk	7,118	5,587	12,705	(184)
Ex-Co Memb.: Community Safety	IC Kritzing	1,394	2,986	4,380	31
Ex-Co Memb.: Sport and Recreation	BA Fortuin	1,639	7,310	8,949	4,650
Ex-Co Memb.: Planning and housing	GJ Stander	9,928	4,832	14,760	1,247
Councillor: Ward 2	C Neethling	5,107	7,002	12,109	1,177
Councillor: Ward 3	EP De Villiers	5,380	5,660	11,040	938
Councillor: Ward 5	LBC Esau	2,940	4,449	7,389	(502)
Councillor: Ward 9	T Teyisi	-	5,771	5,771	(106)
Councillor: Ward 11	NF Kamte	-	3,986	3,986	(237)
Councillor: Ward 12	GN Sixolo	-	3,306	3,306	(467)
Councillor: Ward 14	CM Papah	-	5,694	5,694	1,800
Councillor: Ward 15	FS Guga	-	3,940	3,940	12
Councillor: Ward 18	GC Niehaus	11,116	20,961	32,077	18,983
Councillor: Ward 21	JS Thanda	-	2,619	2,619	(4)
Councillor: Ward 22	PH de Swardt	7,636	3,485	11,121	885
Councillor: Ward 24	AM Wildeman	214	2,966	3,180	(353)
Councillor: PR	SJ Bezuidenhout	5,602	4,128	9,730	(2,854)
Councillor: PR	C Bob	629	5,313	5,942	-
Councillor: PR	TJ Botha	7,377	5,717	13,094	985
Councillor: PR	BM Cornelius	943	4,390	5,333	(25)
Councillor: PR	T Fortuin	-	3,779	3,779	(295)

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**38. Related parties (continued)**

Councillor: PR	F Harris	55	4,127	4,182	(458)
Councillor: PR	LS Hayward	7,636	5,292	12,928	(1,658)
Councillor: PR	NV Kom	-	3,335	3,335	(505)
Councillor: PR	PB Komani	-	3,607	3,607	(281)
Councillor: PR	PS Lehlo	-	2,619	2,619	(218)
Councillor: PR	G Macclune	42	2,275	2,317	(222)
Councillor: PR	SM Mekana	-	1,512	1,512	310
Councillor: PR	B Petrus	-	3,857	3,857	98
Councillor: PR	GMV Sihoyiya	-	3,308	3,308	(37)
Councillor: PR	PJ van der Hoven	5,084	7,138	12,222	53
Councillor: PR	AJ van Zyl	7,650	3,576	11,226	993
Councillor: PR	CT Williams	-	4,103	4,103	(61)

**Section 56 and 57**

**Personnel**

Municipal Manager	T Botha	-	230	230	(20)
Director: Financial Services - Acting	MM Cupido	2,163	5,461	7,624	(763)
Director: Community Safety	BJ Nelson	3,864	5,682	9,546	(469)
Director: Electrotechnical Services	KD Grünwald	4,738	5,438	10,176	(2,634)
Director: Civil Engineering Services	HL Basson	8,065	9,220	17,285	1,482
Director: Planning and Housing	SB Erasmus	-	1,527	1,527	54
Director: Environmental Affairs	AJ Smith	5,787	4,181	9,968	40

**114,159**

**210,728**

**324,887**

**19,534**

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

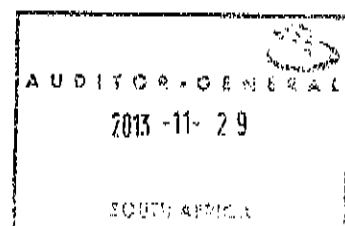
The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

**Loans granted to related parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in note 4 to the Annual Financial Statements.

**Compensation of related parties**

Compensation of Key Management Personnel and Councillors is set out in notes 24 and 25 to the Annual Financial Statements.



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**38. Related parties (continued)**

**Purchases from related parties**

The municipality bought goods from the following companies, which are considered to be Related Parties:

Company name	Related person	Company capacity	Capacity at State / Municipality	Relationship	Purchases for the year
Aurecon SA (Pty) Ltd ISHS	Various CM Willemse	Various Director	Various Teacher - Western Cape Education	Various Wife	9,753,503 407,550
Nashua Mobile	D Mazibuko	Non Executive Director	National departments of Arts & Culture		1,771
Omnisolar Rosmell Unique Manufacture	JE Albert C Manchest T George	Member Director Owner	Not Indicated SAPS Official at George Municipality	Wife Wife Wife	7,524 80,268 705
Raubenheimers Incorporated	WM Luttig	Director	Director: Western Cape Education Department	Wife	104,693
Seebosrand Catering	Mrs ME Classen	Owner	Official at George Municipality	Daughter	116,360
Tuinroete Agri	Mrs S Mkhize	Non Executive Director	Service of the State		183,290
ABSA Bank Bearing Warehouse	Mrs M Ramos FC Zeelie	CEO Member	Minister Department of Agriculture	Husband Wife	2,491,189 190,300
DFN Construction	D Noemdoe	Member	Official at George Municipality Department of Labour	Brother Sister	226,035
NCRT Developments	M Hartnick	Director	Harry Comay Hospital	Wife	77,025
MVD Consulting Engineers Royal Haskoning DHV	CV Swart JD van Eeden	Director Member	Teacher Councillor Langeberg Department of Water Affairs	Wife Brother Nephew	8,151 1,768,608
SMEC SA	J Basson	Director	Official at George Municipality	Brother	5,987,680
Forma Plan CC	CWE Schliemann	Member	Teacher	Wife	2,850
Luluvo!wethu Construction	G Rasi	Owner	Official at George Municipality	Husband	35,610
Siyakhatala Safety Bright Idea Projects 1463 CC	AP Els CC Cook	Director Director	SAPS Service of the State	Wife	17,772 2,525

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**38. Related parties (continued)**

Company name	Related person	Company capacity	Capacity at State / Municipality	Relationship	Purchases for the year
Rosesina Appels	R Appels	Owner	Office at George Municipality	Husband	2,650
Invusa Trading 593 CC	E Scheepers	Director	Temporary employee (George Municipality) (Indigent Project)	Husband	48,247
					<b>21,514,306</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**39. Prior period errors and reclassifications**  
**STATEMENT OF FINANCIAL POSITION**

	2012 previously reported	Adjustments for errors	Reclassify adjustments	2012 restated
<b>Assets</b>				
<b>Current Assets</b>				
Inventories - refer to 39.1	185,169,924	(93,100)	-	185,076,824
Trade receivables from exchange and non-exchange transactions	87,298,374	-	-	87,298,374
Other receivables	34,140,674	-	-	34,140,674
VAT receivable	4,964,237	-	-	4,964,237
Loans and receivables	332,646	-	-	332,646
Cash and cash equivalents	218,901,017	-	-	218,901,017
	<b>530,806,872</b>	<b>(93,100)</b>	<b>-</b>	<b>530,713,772</b>
<b>Non-current Assets</b>				
Property, plant and equipment - refer to 39.3, 39.4 and 39.5	1,951,122,976	376,868,498	(4,236,000)	2,323,755,474
Intangible assets	1,802,071	-	-	1,802,071
Heritage assets - refer to note 10	-	-	4,236,000	4,236,000
Investment property	149,918,175	-	-	149,918,175
Loans and receivables	1,097,659	-	-	1,097,659
	<b>2,103,940,881</b>	<b>376,868,498</b>	<b>-</b>	<b>2,480,809,379</b>
<b>Total Assets</b>	<b>2,634,747,753</b>	<b>376,775,398</b>	<b>-</b>	<b>3,011,523,151</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Loans and borrowings	33,843,432	-	-	33,843,432
Trade and other payables from exchange transactions	92,363,464	-	-	92,363,464
Consumer deposits	15,933,169	-	-	15,933,169
Employee benefits	24,582,073	-	-	24,582,073
Provisions - refer to note 39.2	3,268,425	(1,499,274)	-	1,769,151
Unspent conditional grants and receipts	41,994,057	-	-	41,994,057
	<b>211,984,620</b>	<b>(1,499,274)</b>	<b>-</b>	<b>210,485,346</b>
<b>Non-Current Liabilities</b>				
Loans and borrowings	487,033,565	-	-	487,033,565
Employee benefits	109,146,328	-	-	109,146,328
Provisions	13,622,181	-	-	13,622,181
	<b>609,802,074</b>	<b>-</b>	<b>-</b>	<b>609,802,074</b>
<b>Total Liabilities</b>	<b>821,786,694</b>	<b>(1,499,274)</b>	<b>-</b>	<b>820,287,420</b>
<b>Total Net Assets</b>	<b>1,812,961,059</b>	<b>378,274,672</b>	<b>-</b>	<b>2,191,235,731</b>
<b>Net Assets</b>				
Housing development fund	74,011,194	-	-	74,011,194
Accumulated surplus	1,738,949,865	367,168,965	-	2,106,118,830
	<b>1,812,961,059</b>	<b>367,168,965</b>	<b>-</b>	<b>2,180,130,024</b>

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**39. Prior period errors and reclassifications (continued)**

**STATEMENT OF FINANCIAL PERFORMANCE**

	2012 previously reported	Adjustments for errors	Reclassify adjustments	2012 restated
Revenue from non-exchange transactions	347,592,056	-	-	347,592,056
Property rates	127,788,416	-	-	127,788,416
Property rates - penalties imposed and collection charges	1,217,609	-	-	1,217,609
Government grants and subsidies	203,529,414	-	-	203,529,414
Fines	15,056,617	-	-	15,056,617
Revenue from exchange transactions	585,387,702	-	-	585,387,702
Service charges	527,786,442	-	-	527,786,442
Rental revenue	2,102,676	-	-	2,102,676
Income from agency services	5,751,031	-	-	5,751,031
Licenses and permits	2,450,997	-	-	2,450,997
Other income	29,008,428	-	-	29,008,428
Interest received	18,288,128	-	-	18,288,128
	<b>932,979,758</b>	-	-	<b>932,979,758</b>
<b>Expenditure</b>				
Personnel cost	248,879,435	-	-	248,879,435
Remuneration of councillors	13,868,487	-	-	13,868,487
Loss on disposal of assets	11,285,936	-	-	11,285,936
Depreciation and amortisation - refer to 39.4	106,672,111	(1,312,859)	-	105,359,252
Impairment losses	19,557,889	-	-	19,557,889
Finance cost	57,217,007	-	-	57,217,007
Collection cost	4,728,414	-	-	4,728,414
Repairs and maintenance	52,813,917	-	-	52,813,917
Bulk purchases	244,403,075	-	-	244,403,075
Contracted services	100,248,256	-	-	100,248,256
Grants and subsidies paid	1,188,374	-	-	1,188,374
Cost oferven sold	487,940	-	-	487,940
General Expenses	77,960,745	-	-	77,960,745
	<b>939,311,586</b>	<b>(1,312,859)</b>	-	<b>937,998,727</b>
Surplus / (Deficit) for the year	(6,331,828)	1,312,859	-	(5,018,969)

Certain comparative figures have been reclassified due to incorrect allocations in the prior period. These reclassifications do not have any effect on the accumulated surplus except where indicated.

The correction of the error(s) and reclassifications are as follows:



**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

**39. Prior period errors and reclassifications (continued)**

**39.1 Inventory sold in prior years**

A comparison was performed between the list of even classified as inventory and extracts of properties registered in the municipality's name at the deeds office. Six multi purpose properties was still on the list of inventory even though they were sold in prior years. These properties was removed from inventory.

(Decrease) / Increase in Accumulated surplus 30 June 2011 (opening balance 2011/2012)	(93,100)
(Decrease) / Increase in Inventory for the year ended 30 June 2012	(93,100)
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2012</b>	<b>(93,100)</b>

**39.2 Provision for rehabilitation of Uniondale landfill site**

The Uniondale landfill site was transferred from Eden District Municipality to George Municipality as part of the Demarcation Area agreement between the two municipalities on 1 July 2011. The cost for the rehabilitation of the landfill site of R2,688,805 was provided for on this date.

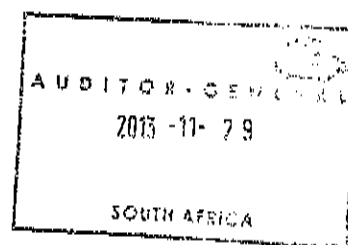
Subsequently the consulting engineers made an estimate of the rehabilitation cost on 30 June 2012 of R1,169,531.

The assets received by George Municipality are:

	<b>Book values of assets received and liabilities assumed</b>
<b>Assets</b>	<b>103,884,958</b>
Property, plant and equipment	103,742,130
Water inventory	142,828
<b>Less: Liabilities assumed</b>	<b>6,274,889</b>
Employee benefits	2,808,077
Current employee benefits: Bonus provision	199,433
Current employee benefits: Staff leave	451,621
Consumer deposits	73,754
Provisions	2,668,805
Payables from exchange transactions	73,199
<b>Net assets received</b>	<b>97,610,069</b>
<b>Less: Consumer deposits paid into the municipality's bank account by Eden District Municipality</b>	<b>(73,754)</b>
<b>Amount recognised in accumulated surplus during 2012</b>	<b>97,683,820</b>
<b>Provision for the rehabilitation of the landfill site restatement</b>	<b>1,499,274</b>
<b>Restated amount recognised in accumulated surplus</b>	<b>99,183,094</b>

The effect of this correction is as follows:

(Decrease) / Increase in Provisions	(1,499,270)
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2012</b>	<b>1,499,270</b>



## Notes to the Financial Statements

### 39. Prior period errors and reclassifications (continued)

#### 39.3 Housing erven incorrectly recognised as property, plant and equipment

Housing erven were identified on the asset register and transferred to inventory. These erven were written down to lower of cost and current replacement value as per the accounting policy of the municipality.

The effect of this correction is as follows:

Increase / (Decrease) in property, plant and equipment	(735,650)
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2011</b>	<b>(735,650)</b>

#### 39.4 Items within property, plant and equipment types was changed

A number of assets have been reclassified during the year to reflect the assets in their correct category. These assets were restated from their acquisition date. Depreciation was rolled back on these assets on the categories where it was previously recognised and recalculated and recognised on their new categories.

The effect of this correction is as follows:

Increase / (Decrease) in property, plant and equipment	4,240,265
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2011</b>	<b>4,240,265</b>
Increase / (Decrease) in property, plant and equipment	1,312,589
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2012</b>	<b>5,552,854</b>

#### 39.5 Erven not previously recognised included in property, plant and equipment

Property have been identified and recognised retrospectively for the first time during the financial year. The transitional provisions in Directive 7 of the ASB was utilised in order to apply deemed cost where the acquisition cost of the property could not be determined.

The effect of this correction is as follows:

Increase / (Decrease) in property, plant and equipment	372,051,295
<b>Total (Decrease) / Increase in Accumulated surplus for the year ended 30 June 2011</b>	<b>372,051,295</b>

### 40. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk.

The municipality seeks to minimise the effects of these risks in accordance with its policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Director Financial Services on a continuous basis. The municipality does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

## Notes to the Financial Statements

### 40. Risk management (continued)

The Treasury function reports periodically to the municipality's finance committee, that monitors risks and policies implemented to mitigate risk exposures.

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans and borrowings	87,301,555	86,937,797	228,758,525	471,973,740
Consumer Deposits	17,697,494	-	-	-
Trade and other payables	92,648,908	-	-	-
At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans and borrowings	87,665,317	87,301,555	246,345,396	541,324,666
Consumer Deposits	15,933,169	-	-	-
Trade and other payables	80,302,987	-	-	-

#### Interest rate risk

The Municipality is exposed to interest rate risk due to the movements in long-term and short term interest rates.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates.

This risk is managed on an ongoing basis.

#### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Potential concentrations of credit rate risk consist mainly of investments, loans and receivables, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

## **Notes to the Financial Statements**

### **40. Risk management (continued)**

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction/ exposure limits, which are included in the municipality's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Non-current Receivables and Other Receivables are collectively evaluated annually at reporting date for impairment or discounting. A report on the various categories of customers is drafted to substantiate such evaluation and subsequent impairment / discount, where applicable.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

<b>Financial Instrument</b>	<b>2013</b>	<b>2012</b>
Loans and receivables	1,468,086	1,430,305
Trade receivables from exchange transactions	49,539,691	87,298,374
Trade receivables from non-exchange transactions	23,639,828	16,886,123
Other receivables	40,873,838	34,140,674
Cash and cash equivalents	266,877,126	218,901,017

### **Market risk**

The municipality does not hedge foreign exchange fluctuations and does not engage in transactions denominated in foreign currencies.

### **Price risk**

The effect of any price risk in the foreseeable future is regarded as minimal given the fact that amounts receivable from the municipality's customers are levied in terms of the relevant statutes. It is not anticipated that given the nature of the municipality's business that changes in market prices will have a material impact on the trading results of the municipality.

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>41. Unauthorised expenditure</b>		
<b>Employee Cost</b>		
<b>Reconciliation of unauthorised expenditure</b>		
Opening balance	13,077,435	-
Unauthorised expenditure current year	7,545,238	13,077,435
Approved by Council or condoned	(13,077,435)	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<b>7,545,238</b>	<b>13,077,435</b>

The unauthorised expenditure relates to the budget overspending due to Provision for Employee Benefits. This was included in prior year's audit report. Refer to note 48.1 for more detail.

**Impairment losses**

<b>Reconciliation of unauthorised expenditure</b>		
Opening balance	8,081,889	-
Unauthorised expenditure current year	12,721,151	8,081,889
Approved by Council or condoned	(8,081,889)	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<b>12,721,151</b>	<b>8,081,889</b>

The unauthorised expenditure relates to budget overspending due to a change in the method of calculating the impairment of debtors. Refer to note 48.2 for more detail.

**Depreciation and amortisation**

<b>Reconciliation of unauthorised expenditure</b>		
Opening balance	2,976,111	-
Unauthorised expenditure current year	-	2,976,111
Approved by Council or condoned	(2,976,111)	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<b>-</b>	<b>2,976,111</b>

The unauthorised expenditure relates to depreciation on new assets that was commissioned during the year. Refer to note 48.3 for more detail.

**George Local Municipality**  
Financial Statements for the year ended 30 June 2013

**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**41. Unauthorised expenditure (continued)**

**Finance charges**

**Reconciliation of unauthorised expenditure**

Opening balance	-	-
Unauthorised expenditure current year	201,880	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<u>201,880</u>	<u>-</u>

The unauthorised expenditure relates to the interest charge on the provision for the rehabilitation of the landfill sites not being budgeted for. Refer to notes 16 and 48.4 for more detail.

**Other expenses**

**Reconciliation of unauthorised expenditure**

Opening balance	3,787,952	-
Unauthorised expenditure current year	-	3,787,952
Approved by Council or condoned	(3,787,952)	-
Transfer to receivables for recovery (note 4)	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<u>-</u>	<u>3,787,952</u>

**42. Fruitless and wasteful expenditure**

Forensic investigation at traffic department on cash received but not banked (incident happened during 2012 financial year)	11,050	11,050
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After the necessary disciplinary action was taken, the matter was resolved and reported to council. The theft was reported to the commercial branch of the South African Police Department for further investigation.

**43. Irregular expenditure**

Opening balance	37,725	562,346
Add: Irregular Expenditure - current year	-	37,725
Less: Amounts condoned	(37,725)	(562,346)
	<u>-</u>	<u>37,725</u>

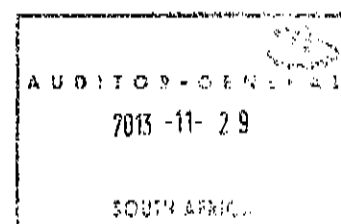
**Details of irregular expenditure - previous year**

Persons in the service of the State not declared by suppliers	<u>37,725</u>
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**44. Material losses**

**Electricity distribution losses**

Units purchased (KWh)	449,478,882	449,607,827
Units lost during distribution (Kwh)	27,783,588	31,798,687
Percentage lost during distribution	6.18%	7.07%



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**Notes to the Financial Statements**

<b>Figures in Rand</b>	<b>2013</b>	<b>2012</b>
<b>44. Material losses (continued)</b>		
<b>Water distribution losses</b>		
Kilolitres purified	10,203,693	9,973,584
Kilolitres lost during purification	1,894,238	451,565
Percentage lost during distribution	18.56%	4.53%
<b>45. In-kind donations and assistance</b>		
The municipality did not receive any in-kind donations and assistance during the year under review.		
<b>46. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee (SALGA)	2,075,479	1,610,687
Amount paid - current year (SALGA)	(2,075,479)	(1,610,687)
	<u>-</u>	<u>-</u>
<b>Audit fees</b>		
Current year subscription / fee	3,519,715	3,906,646
Amount paid - current year	(3,519,715)	(3,906,646)
	<u>-</u>	<u>-</u>
<b>PAYE and UIF</b>		
Current year subscription / fee	34,777,409	31,712,082
Amount paid - current year	(34,777,409)	(31,712,082)
	<u>-</u>	<u>-</u>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	56,593,338	51,588,219
Amount paid - current year	(56,593,338)	(51,588,219)
	<u>-</u>	<u>-</u>
<b>VAT</b>		
VAT receivable	<u>9,093,233</u>	<u>4,964,237</u>

VAT output payables and VAT input receivables are shown in note 5.

All VAT returns have been submitted by the due date throughout the year.

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**Notes to the Financial Statements**

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2013

2012

**46. Additional disclosure in terms of Municipal Finance Management Act (continued)**

**Supply chain management regulations**

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. Non-compliance with the Supply Chain Management Regulations were identified on the following categories and have been condoned.

Incident	Less than R30,000	Between R30,001 and R200,000	Between R200,001 and R2,000,000	More than R2,000,000
Office of the Municipal Manager	119,954	321,866	-	-
Corporate & Social Services	159,506	214,303	-	-
Civil Engineering Services	591,241	1,351,897	467,403	-
Electro-technical Services	527,679	759,367	-	-
Planning & Human Settlement	201,679	65,094	-	-
Environmental Affairs & Community Safety	597,392	326,853	586,294	-
Financial Services	57,504	137,826	378,000	-
	<b>2,254,955</b>	<b>3,177,206</b>	<b>1,431,697</b>	<b>-</b>

The major deviations were as follows:

Awarded to	Value	Reason / Explanation
ABB South Africa	99,773	Switchgear Heather Park Substation - Sole Supplier
Sicame	99,864	Repairs to 66Kv Langenhoven line - Emergency
ESRI SA	279,941	Training in ARC GIS - Sole Supplier
Hoistec Engineering	74,571	Safety inspection and load testing of equipment - Only two companies registered with Department of Labour in George to do the work
JLMA Engineering	317,539	Temporary pavilions and steel support equipment - Direct negotiations with 7 suppliers
AKURA	268,755	Repairs to compactor - Sole suppliers
Precision Production	72,124	Repairs to refuse containers and compactor machine - Emergency
Suiderkruis Security	92,852	Control room equipment - Such services have already been acquired from specific supplier
Alone Marketing Promotions	82,200	Training: Good Labour practice - Direct negotiations with three accredited training companies
Global Africa Network	74,043	Placement of marketing material - Specific publications addressing
Ignite Advisory Services	70,000	Implementation of compliance model - Sole supplier of specific product
Ignite Advisory Services	197,520	Compilation of the Annual Report and IDP Implementation Map - Supplier has an in-depth knowledge of the specific needs of the Municipality
Bytes Systems Integration	378,000	Clean Audit Strategy - Sole Supplier
Valley Distribution Equipment	137,826	70mm Al 11Kv Cable - Emergency
Spectrum Communications	76,555	Repairs to telemetry - Such services have already been required from specific supplier
CB Ads	100,700	Printing of GIPN : Public participation and communication - Direct negotiations with three local suppliers
R&S Communications	117,350	Repairs to radio system - Emergency
Transmission Gear Services	72,802	Repairs to K160 Brush Aerator - Sole supplier



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**Notes to the Financial Statements**

Figures in Rand	2013	2012
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**46. Additional disclosure in terms of Municipal Finance Management Act (continued)**

Knowledge Base	92,568	Supply Allycad Software - Sole Supplier
Coastal Armature Winders	101,574	Repairs to floating aerator at Outeniqua WWTW - Direct negotiations with three local suppliers - Emergency
Transmission Gear Services	150,021	Major services of Hansen Aerators - Sole agent
Induce	102,497	Chemicals - Sole supplier
Much Asphalt	467,403	Hot mix asphalt - Sole supplier
<b>Total</b>	<b>3,526,478</b>	

**47. Utilisation of Long-term liabilities reconciliation**

Long-term liabilities raised	487,033,565	520,876,997
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Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date. Refer to note 12 for detail of long-term liabilities.

**48. Budget differences**

**Material differences between budget and actual amounts**

**48.1 Transfers recognised - operational**

The difference between the budget and the actuals for transfers recognised is the underspending on the N2/York Street Bridge Upgrade of R14,084,328 and Uniondale's Housings Projects of R3,830,418.

**48.2 Employee Cost**

The difference between the budgeted spending and the actual spending is due to the following:

Amounts included in Adjusted Budget:	
Employee benefit obligations on Long Service Awards, Ex-gratia Pension Benefits and Post-Retirement Medical Aid Benefits (refer to note 24)	16,648,120
Virement on Employee Cost	2,616,120
Leave provision not budget for (refer to note 16)	1,651,666
Less: Saving on salaries paid	(7,905,432)
Less: Movement in Cape Joint Pension Fund	(3,688,595)
	<b>9,321,879</b>

**48.3 Debt impairment**

Debt impairment was calculated by using specific payment ratio's for different classes of consumer debtors based on actual amounts charged to individual debtors and amounts paid by individual debtors and not applying a general payment ratio to most of the debtors as done in the past. This resulted in a larger provision for debt impairment due to the fact that the payment ratio's decreased from last year.

**48.4 Depreciation and asset impairment**

Some of the new assets were completed before year end and commissioned during this financial year and their depreciation was not budgeted for.

A number of assets have been reclassified during the year to reflect the assets in their correct category. These assets were restated from their acquisition date. Depreciation was rolled back on these assets on the categories where it was previously recognised and recalculated and recognised on their new categories.

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Figures in Rand	2013	2012
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**48.5 Finance cost**

The municipality did not budget for the interest on the provision for the rehabilitation of the landfill site of R799,314.

**48.6 Other expenditure**

The difference between the budget and the actuals for other expenditure is the under spending for Contracted Services for the following projects:

Uniondale housing projects	3,830,418
N2/York Street Bridge upgrade	12,985,960
George Integrated Public Transport Network	1,080,492
	<b>17,896,870</b>

**48.7 Transfers recognised - capital**

The difference between the budget and the actuals for transfers recognised is the underspending on the Erf 325 Electrification project of R2,977,851 and the UISP Project of R18,057,434.

**49. Private Public Partnership**

The municipality was not a party to any Private Public Partnerships during the current financial year.